

# Unrivalled.

 **vallibel** Finance

ANNUAL REPORT 2016/17

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# Unrivalled.

Financial services from leasing and hire purchase to fixed deposits and loans. Every enterprise and enterprising households and micro-credit programmes delivered across the island, reaching into the hinterlands to support and benefit thousands of Sri Lankan communities and economies.

The year under review was an excellent one for your company, as we achieved an outstanding growth rate in the industry in profitability and assets, even as we continue to deliver innovation in financial products and services that serve the needs of Sri Lankans across the country.

It all adds up to a rapidly evolving, vibrant conglomerate serving a portfolio of products and services that few can match. Read this report and find out just how distinctive our offering is, as we continue to expand our portfolio and our presence, serving our many stakeholders with excellence....like no one else can.

Vallibel Finance. Simply Unrivalled.

# About us

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Having completed an unrivalled 10-year journey of exceptional growth and performance under the powerful Vallibel umbrella, Vallibel Finance is an enterprise that leads the way in bringing to our customers innovative, value for money financial solutions.

Incorporated in the year 1974, as Rupee Finance, Vallibel Finance came into being as soon as we were acquired by the prestigious Vallibel Group in 2005. This acquisition having opened new opportunities for growth, Vallibel Finance has today travelled a path far different from its humble beginnings. The Company has been challenged and rivalled, yet achieved exceptional growth to emerge victorious and triumphant in all we set-out to do.

The Company's wide-ranging and innovative financial solutions cater to the diverse needs of different members of society across Sri Lanka. With 24 branches and 8 Service Centres located in the Western, Central, Sabaragamuwa, Southern, North Western, Uva and North Central provinces of Sri Lanka, the Company's dedicated and loyal team of 694 people is trained and developed to serve our customers with the highest level of service and the ultimate in professionalism.

Over the years, we have served customers ranging from entrepreneurs to large corporates, and small businesses to enterprising households, while ensuring a successful and satisfactory service delivery. As we mature we are exploring ways to assist in the financial needs of niche market segments and have launched our very first Microfinance-based product during the year.

Having been bestowed with internationally accolades such as 'The Fastest Growing Auto Financing Company – 2017', and 'The 'Most Innovative Finance Product - 2017', says much about the current dynamism, past contributions and future potential of Vallibel Finance.

Vallibel Finance sees a future committed to further diversification of our innovative product portfolio and expansion of our network reach to be able to serve customers across the nation. The strong assets base of Rs. 30.68 Bn together with the fixed deposit base of Rs. 17.86 Bn, and the Company's focus on profitability growth is the ideal foundation on which to launch future growth strategies.

Vallibel Finance PLC is ready to make a bigger impression on the Financial Services Industry, while simultaneously ensuring the creation of value to our stakeholders across the nation.

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# Our 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.

# Our Mission

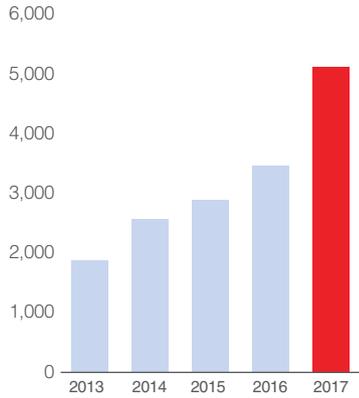
Our work ethics involve working tirelessly to formulate and offer a financial product spread that understands the pulse of the people. Our search is for excellence in all we do including accountability in financial stewardship and in our responsibility towards customers, stakeholders and our country.

# Financial Highlights

For the Year Ended / As at 31st March	2017 (Rs.'000)	2016 (Rs.'000)	Change %
<b>FINANCIAL PERFORMANCE</b>			
Gross Income	5,114,694	3,468,277	47.47
Gross Interest Cost	2,586,589	1,558,668	65.95
Pre-Tax Profit	1,324,471	911,736	45.27
Income Taxation	368,622	270,359	36.35
Profit After Taxation	726,159	513,265	41.48
Revenue to The Government	598,312	398,471	50.15
<b>FINANCIAL POSITION</b>			
Shareholder's Funds	2,557,620	1,928,926	32.59
Total Deposit Base	17,863,861	14,804,037	20.67
Borrowings & Bank Overdrafts , Subordinated Term Debts	9,231,051	5,385,344	71.41
Loans & Advances, Lease and Hire Purchase	24,778,080	18,479,905	34.08
Total Assets	30,685,096	22,767,176	34.78
Market Capitalisation	2,430,710	2,231,267	8.94
<b>KEY INDICATORS PER ORDINARY SHARE</b>			
Earnings Per Share (Rs.)	17.48	12.35	41.53
Net Assets Per Share (Rs.)	61.55	46.42	32.59
Market Value Per Share (Rs.)	58.50	53.70	8.94
PE Ratio (Times)	3.35	4.35	(22.98)
<b>KEY RATIOS</b>			
Return on Average Equity (%)	32.37%	29.81%	8.58
Return on Average Assets - After Tax (%)	2.72%	2.59%	5.01
Interest Cover (Times)	1.51	1.58	(4.43)
Equity / Assets	0.08	0.08	-
Debt plus Total Deposit to Equity (Times)	10.01	9.83	1.84
Non Performing Ratio (%) - Gross	2.93%	3.76%	(22.07)
Non Performing Ratio (%) - Net	0.37%	0.52%	(28.84)
<b>STATUTORY RATIOS</b>			
Liquid Assets - Minimum Required 10%	20.85%	19.11%	9.10
Core Capital Ratio (%) - Minimum Required 5%	10.45%	10.58%	(1.22)
Total Risk Weighted Capital Ratio (%) - Minimum Required 10%	13.72%	15.86%	(13.49)

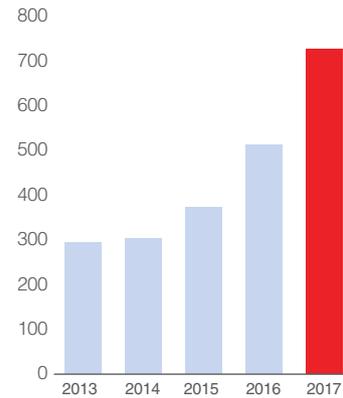
### Gross Income

Rs. 'Mn



### Net Profit

Rs. 'Mn



2017

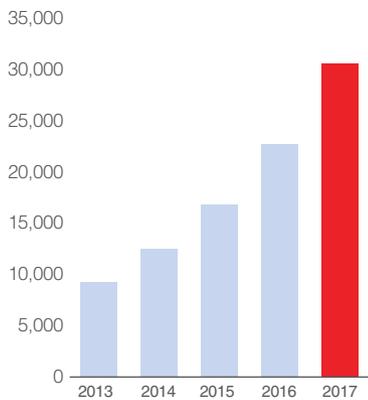
**47.5%**  
Growth of Gross Income

2017

**41.5%**  
Growth of Net Profit

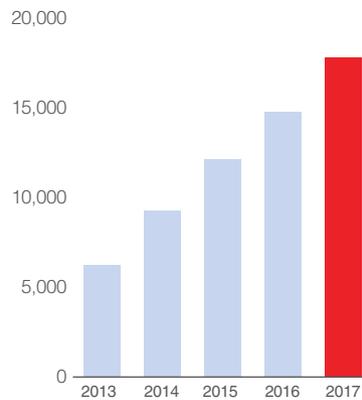
### Total Assets

Rs. 'Mn



### Total Deposits

Rs. 'Mn



2017

**34.8%**  
Growth of Total Assets

2017

**20.7%**  
Growth of Total Deposits

# Operational Highlights

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## 01 Vallibel Finance introduces Microfinance product

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Product offering aims at empowering women in the country to develop their home-based business enterprises while encouraging others to venture into the arena.

## 02 Placed within the 100 leading Brands in Sri Lanka, by LMD

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The Brands Annual, a supplement of LMD, listed Vallibel Finance among the top 100 brands in Sri Lanka.

## 03 Mt. Lavinia Branch added to Vallibel Finance network

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Bolstering its island wide footprint, Vallibel Finance further expanded its customer reach with the opening of a branch in Mt. Lavinia.

## 05 Vallibel Finance lights up Borella

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Financial innovator Vallibel Finance added a branch in Borella, including a motor division first of its kind, to its expanding network.

## 04 Vallibel the name trusted by Sri Lanka expanded to Balangoda

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The name-bearer of the respected Vallibel Group opened its doors to Balangoda, adding more muscle to its rapidly increasing branch network.

## 06 Vallibel Finance awarded Sri Lanka's Best Employer Brand

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Brand Vallibel was bestowed a glowing accolade as the Group's name-bearer Vallibel Finance was picked among Sri Lanka's Best Employer Brands at the annual event hosted by the World HRD Congress.

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## 07 Vallibel Finance became the first finance company in Uragasmanhandiya

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Vallibel Finance stamped its stature as a development crusader, putting a little known southern town on the radar.

## 08 Vallibel Finance relocates service Centre in Kalutara

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Vallibel Finance relocated its Service Centre in Kalutara to an upgraded customer – friendly center of excellence, bringing its full spectrum of financial products and services to the cutting edge.

## 09 Vallibel Finance takes operations to an epic IT platform

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Vallibel Finance further consolidated its standing as a futuristic finance company with a far-reaching documentation management system that would overhaul the company's operating system.

## 11 ICRA reaffirms Vallibel Finance Long Term Ratings

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ICRA Lanka, a group company of Moody's Investors has reaffirmed the issuer rating of [SL] BBB- with stable outlook for Vallibel Finance.

## 10 Vallibel Finance Galle branch moves to own premises

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Financial innovator Vallibel Finance called for a double celebration as it not only relocated to its own premises in Galle but a showpiece location in the heart of the popular town.

## 12 Vallibel Finance recognised globally to win 2 global awards from Global Banking and Finance Review (UK)- 2017

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Vallibel Finance, based on its growth rate in volumes and profits has been ranked as "The Fastest Growing Auto Financing Company in Sri Lanka" & Vallibel Auto Draft has been recognised as "Most Innovative Finance Product in Sri Lanka."

# Chairman's Statement

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I am pleased to present to our stakeholders the latest Annual Report of Vallibel Finance PLC. As in the past, we have endeavoured to present to you the noteworthy performance of the Company overcoming the challenges experienced in the external operating environment, and making the most of new opportunities that are always open to innovative thinkers.

The Company's performance and achievements are a result of the efforts expended by our loyal and dedicated employees to surpass targets and create new heights of success. Throughout the Company's 10-year journey since its relaunch, we have continued to emphasise the importance of ethical and transparent business operations, develop a culture of trust and accountability, while creating value to all our stakeholders. This has resulted in the confidence and trust of our loyal employees, customers, shareholders, suppliers and vendors who believe in

the Company's ability to achieve our goals and remain sustainable in the future.

The year 2016/17 was a remarkable one for the Company, having surpassed all our performance expectations. The Company's pre-tax profits grew by 45.27% to reach Rs. 1.32 Bn, while the revenue growth was 47.47% amounting to Rs. 5.11 Bn in the year. The Company's total assets base exceeded Rs. 30 Bn catapulting Vallibel Finance among the leading 10 Licensed Finance Companies who have largest asset base. Another key indicator for the Company's unparalleled success is the growth in the fixed deposit base to reach Rs. 17.86 Bn as at the year end, resulting in the Company retaining its position among the leading 10 Licensed Finance Companies with the largest deposit base.

The Company's exceptional performance comes in the backdrop of a sluggish domestic economic growth which did not dampen the expansion of the financial sector of the economy despite the challenges faced. The licensed finance companies and specialised leasing companies sub-sector was the main contributor of this growth recording high levels of asset base expansion fuelled by the regulatory policies and measures adopted by the Central Bank to push the growth of the sector.

Vallibel Finance did not rest on its laurels when it came to operational performance either. The Company continued to pursue its strategies of becoming a leading and notable financial institution in the Sri Lankan market, serving the needs of the diverse people of the country. Accordingly, the network expansion drive continued with the addition of four branches and expansions and upgrades to one existing branch and one service center. The introduction of innovative financial products to the market also continued with the launch of microfinance targeted at the niche market of self-employed women. Making strides towards becoming more customer service oriented, Vallibel Finance launched a dedicated motor division in the newly opened Borella branch to simplify the purchase of an automobile while simultaneously obtaining a lease from the Company.

Vallibel Finance's achievements were also lauded by external parties, further re-enforcing the Company's brand value to stakeholders. ICRA Lanka re-affirmed the issuer rating (SL) BBB- in recognition of the Company's growth prospects and stable outlook. The Brands Annual listed Vallibel Finance among the top 100 brands in Sri Lanka in their issue of 2016, while the Sri Lanka Best Employer Brand Awards bestowed upon Vallibel Finance the title of being among Sri Lanka's Best Employer Brands at the annual event hosted by the World HRD Congress in November 2016. International recognition was also received by the Company from the Global Banking and Finance Review (UK), as 'The Fastest Growing Auto Financing Company – 2017' for volume and profitability growth achieved in over the last 10 years, and the 'Most Innovative Finance Product - 2017', for the Vallibel Auto Draft product.

## **The Company's exceptional performance comes in the backdrop of a sluggish domestic economic growth which did not dampen the expansion of the financial sector of the economy despite the challenges faced.**

➔ The Company's pre-tax profits grew by 45.27% to reach Rs. 1.32 Bn during the year under review.

➔ The Company's revenue growth was 47.47%, amounting to Rs. 5.11 Bn in the year.

I would like to take this opportunity to express my appreciation to Mr. Dhammika Perera, whose vision for Vallibel Finance is unrivalled. His continued guidance and support towards enabling the success of the Company is much appreciated. I also take this opportunity to thank the Managing Director, Mr. S.B.Rangamuwa and management team for their leadership, and all employees for always giving their best to the Company. My appreciation to my fellow Board of Directors for their support and guidance in carrying out company business. I would like to convey my gratitude to the regulators for the foresight in steering the industry to perform well in the current economic context. Finally, I take this opportunity to convey to our shareholders the gratitude and appreciation of the Board of Directors, management team and all employees of the Company for the trust placed in us to meet your expectations.



**K V P R De Silva**  
Chairman

# Managing Director's Message

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Vallibel Finance continues its journey as an unrivalled enterprise... serving every enterprise, every enterprising households and rewarding niche market segments of Sri Lankans across the nation. The Company's wide ranging and innovative product portfolio is geared to meet customer demands and evolve to align with the rapidly changing financial products arena.

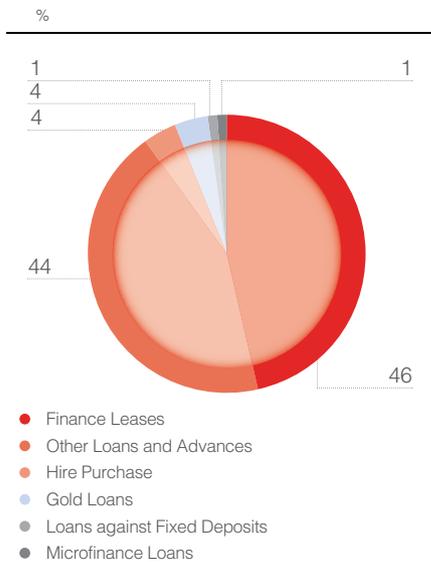
I welcome you to read the annual report 2016/17 of Vallibel Finance PLC. Our Company is a part of the prestigious Vallibel Group with widespread interests in the trading, finance, manufacturing, plantation, etc. industries in Sri Lanka. From Vallibel Finance's humble beginnings, to its amalgamation into the Vallibel brand, to today becoming a noted and respected Finance Company on its own merit, the Vallibel umbrella has played a significant role in ensuring the Company's success over the last 10 years since relaunch.

The Company's performance in the year under review was beyond expectations. We, the management, set out to consolidate the Company's position as a top notch financial institution, while managing the challenges of the external operating environment. In my view, this objective was certainly achieved, and well beyond expectations.

## **Extraordinary Financial Performance**

The financial results of Vallibel Finance showcase the story of achievements during the year under review. Leading this story is the growth in total assets of the Company to record Rs. 30.69 Bn and fixed deposit base of the Company to record Rs. 17.86 Bn during the year under review. These milestone accomplishments have placed Vallibel Finance among the leading 10 Licensed Finance Companies who have the largest asset and deposit bases.

Composition of Lending Portfolio - 2017



The Company also recorded a growth in pre-tax profits by 45.27% to Rs. 1.32 Bn in the year under review compared to Rs. 911.74 Mn in the previous year. Total revenue also grew by 47.47% to Rs. 5.11 Bn in the year under review compared to 19.75% growth achieved in the previous year. This is a result of the increased lending portfolio by 34.08% to Rs. 24.78 Bn in the year under review. Resultantly, profit after tax achieved a significant growth by 41.48% to reach Rs. 726.16 Mn during the year under review compared to Rs. 513.26 Mn in the previous year.

The Company mainly attributes these results to our focus on product innovation together with the trust and confidence of our customers and other stakeholders.

### Operational Performance Highlights

Supporting the achievement of these financial milestones was the Company's operational strategies. The strategy to diversify the Company's product portfolio continued in the year under review with the emphasis on increasing volumes of mortgage loans, gold loans, property loans and business loans. Further, the Company's launch of a new product – microfinance for an identified niche market strengthens

**The Company's performance in the year under review was beyond expectations. We, the management, set out to consolidate the Company's position as a top notch financial institution, while managing the challenges of the external operating environment. In my view, this objective was certainly achieved, and well beyond expectations.**

→ The Company recorded a growth in total assets to Rs. 30.69 Bn and a growth in the fixed deposit base to record Rs. 17.86 Bn during the year under review.

→ Profit after tax achieved a significant growth by 41.48% to reach Rs. 726.16 Mn during the year under review.

and adds value to Vallibel Finance's competitively priced product portfolio.

The Company's quality product portfolio together with the loyalty of our customers is attributed the continued improvement on the non-performing loan ratio which reduced to 2.93% as at 31st March 2017, compared to 3.76% as at 31st March 2016.

The Company also continued with branch expansion during the year under review, resulted in the opening of four branches in Mount Lavinia, Borella, Balangoda and Uragasmanhandiya. Further, the dedicated motor division set-up the Borella branch is expected to increase customer convenience while promising long term benefits to the Company.

# Managing Director's Message



## Global Banking and Finance Review

- Ranked as "The Fastest Growing Auto Financing Company Sri Lanka - 2017"
- Awarded the Vallibel Auto Draft Product as the "Most Innovative Finance Product Sri Lanka - 2017"



## Sustainable Business Practices

The strategic foresights of the Company and the management is the foremost reason for the operationally and financially strong performance over the years. The Company's focus on customer loyalty and satisfaction, technological enhancements, improvement in processes and systems, knowledge and skills developments, and innovative product offering all contribute to meeting our vision and pursuing a benchmark status in the finance industry in Sri Lanka.

As we continue to exceed growth and performance expectation, we will continue to analyse the changing market space and customer requirements while simultaneously pursuing sustainable business practices which will create value to our stakeholders.

## Creating Value to Stakeholders

Continuing this story of success is the value creation by the Company to key stakeholders. During the year under review revenue to government increased by 50.15% amounting to Rs. 598.31 Mn. The creation of wealth to shareholder was also achieved through the growth in shareholders' funds by 32.59% to Rs. 2.56 Bn and earnings per share growth of 41.53%. The Company's return on

average equity therefore, realised an 8.58% increase and stood at 32.37% as at 31st March 2017. Further the fundamentally strong shares of the Company resulted in a market value per share growth of 8.94% to Rs. 58.50.

For the Company's customers, we introduced a new product – microfinance, and continued to innovate and customise the existing product portfolio. We also focussed our efforts on improving customer service levels and customer convenience. For our employees, we invested in training and development activities to enhance their professional skill levels and knowledge. The Company also focused on developing programmes for employee welfare and work-life balance during the year under review.

For the society within which we operate, the Company has established programmes for Corporate Social Responsibility (CSR) activities. In the year under review, the Company together with our employees contributed

2017

**41.5%**  
Growth of Net Profit

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to the flood relief efforts and the annual blood donation campaign. Further, the Company sponsored events dedicated to youth leadership, improvement in education facilities and sporting activities for students, and supported the performing arts in Sri Lanka.

### **Corporate Governance and Compliance**

Vallibel Finance pursues ethical and transparent business operation, embedding these concepts in our strategies and business operations. In order to achieve a strong corporate governance regime, the Company complies with the Companies Act No. 07 of 2007, the Continued Listing Rules of the Colombo Stock Exchange, and the Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission and the Institute of Chartered Accountants of Sri Lanka.

As a Licensed Finance Company and a Registered Finance Leasing establishment, the Company has even more regulations to adhere to. We believe in high levels of compliance, and strive to exceed standards set by the Central Bank policies and regulations.

### **Awards and Recognitions**

The year under review was also a year where Vallibel Finance achieved external recognitions reiterating the successes achieved. ICRA Lanka reaffirmed the issuer rating of [SL]BBB- with stable outlook for Vallibel Finance during the year. The Brands Annual, a supplement of LMD, listed Vallibel Finance among the top 100 brands in Sri Lanka in their issue of 2016. Further, an internationally renowned awarding body, the Global Banking and Finance Review, in recognition of the Company's performance over the last 10 years recognised Vallibel Finance as the 'The Fastest Growing Auto Financing Company – 2017' and also awarded the Vallibel Auto Draft product as the 'Most Innovative Finance Product - 2017'.

An achievement that is purely dedicated to our employees, is the accolade as one of Sri Lanka's Best Employer Brands received by Vallibel Finance at the annual event hosted by the World HRD Congress in November 2016. It is you who made this achievement possible.

### **Looking to the Future**

The Company views the coming years with much optimism and high expectations in terms of growth in key financial indicators. We are aware that we must continue this growth momentum by employing the right strategies at the right time. We will take advantage of opportunities in the market place, and continue to expand our footprint in terms of both innovative product development and branch expansions.

The future is all about novel ideas and innovation, digital developments and service orientations. This is the path we shall pursue to become a benchmark company in all things we do.

### **Appreciation**

I would like to take this opportunity to thank the Chairman, Mr. Ranjith De Silva and Board of Directors of Vallibel Finance for their unfailing support during the year and look forward to the same in the coming year. I would also like to extend my appreciation to Mr. Dhammika Perera, the visionary behind Vallibel Finance and the key force behind the Company's achievements.

It is my pleasure to take this opportunity to also thank the management and staff of the Company for your loyalty, commitment and attitude to succeed, which has been the backbone of all that we have achieved in the past, and all that we hope to attain in the future. Finally, my sincere appreciation to our stakeholders for your trust in the management team and employees of the Company to meet your expectations.

For Vallibel Finance, our dedicated employees, customers, shareholder, regulators and other stakeholders are the invisible strength behind everything we do. We look forward to continuing the relationships built on trust and loyalty in the future.



**S B Rangamuwa**  
Managing Director

# Board of Directors

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**Mr. K. V. P. R. De Silva**  
Chairman

Mr. K. V. P. Ranjith De Silva holds a Bachelor of Arts Degree from Vidyodaya University and a Postgraduate Diploma from Postgraduate Institute of Management (PIM). He joined the Sri Lanka Administrative Service (SLAS) in 1980 and became a special grade SLAS officer in 2006.

He held many key positions in the public sector at divisional, district and national level and has served in various Government Ministries such as Food and Cooperative, Home Affairs, Health, Ports and Aviation etc.

He held the position of Additional Secretary in the Ministry of Ports in 2005 and became the Secretary to the Ministry of Ports and Aviation in 2009. He became the Secretary to the Ministry of Civil Aviation in 2010.

During his tenure in the Ministry of Ports and Aviation and the Ministry of Civil Aviation some of the Major Government projects that is Colombo Port expansion project, Port of Oluvil, Magampura Mahinda Rajapaksa Port, Mattala Rajapaksa International Airport at Mattala were commenced and completed under his supervision as Chief Accounting Officer in those Ministries.

He has served as a member of Standing Cabinet Appointed Review Committee (SCARC) which grants in principle approval for major Government Projects.

He was the Chief Executive Officer (CEO) of the Commonwealth Heads of Government Meeting (CHOGM) which was held in Sri Lanka in 2013.



**Mr. 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.

He obtained an MBA from the University of Southern Queensland / ICASL 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 Vallibel Finance PLC in February 2007.

He also served as Deputy Chairman of the Leasing Association of Sri Lanka.

Currently he serves as a Director of Hunnas Falls, Pan Asia Bank and Finance House Consortium (Pvt) Ltd.



**Mr. Dhammika Perera**  
Executive Director

Mr. Dhammika Perera is the quintessential strategist and business specialist with interests in a variety of key industries including Manufacturing, Banking and Finance, Hospitality and Hydropower generation. He has three decades of experience in building formidable business through unmatched strategic foresight.

Mr. Perera is the Chairman of Royal Ceramics Lanka PLC, Lanka Ceramic PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resorts PLC, Vallibel Power Erathna PLC and Delmege Limited. He is the Co-Chairman of Hayleys PLC, The Kingsbury PLC, Executive Deputy Chairman of LB Finance PLC and Deputy Chairman of Horana Plantations PLC. He is also the Executive Director of Vallibel Finance PLC and serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys Fabric PLC, Dipped Products PLC, Sun Tan Beach Resorts Limited and Hayleys Global Beverages (Pvt) Limited.



**Mr. R. M. Karunaratne**  
Director

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

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

# Board of Directors

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**Mr. T. Murakami**  
Director

Mr. Toyohiko Murakami is Chief Executive of Bansei Group Japan. Mr. Murakami has over 33 years of experience in managing various business fields, consisting of Securities, Finance, Insurance, and Real Estate. Mr. Murakami has a degree in Bachelor of Law from Kyoto University, Japan.

Mr. Murakami joined Bansei Securities Co., Ltd. in November 2005. He was appointed to Executive Vice President in February 2006 and to President & CEO of the company in June 2009.

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

Formerly, Mr. Murakami was Advisor of Zenkoku Hosho Co., Ltd. from November 2005 to February 2006 and Director of H.S. Securities Co., Ltd. from June 2002 to August 2005.

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



**Mr. K. D. A. Perera**  
Director

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



**Mr. A. Dadigama**  
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 specialized in finance, treasury, risk management and formulating strategic business plans and counts over 23 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.



**Mr. Hiroyuki Ota**  
Alternate 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 Finance (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 as 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

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**1 Mr. D.G.N. Perera**  
Deputy General Manager - Credit

**2 Mr. S.K.N.C. Jayawardana**  
Deputy General Manager -  
Strategic Planning & Business Development

**3 Mr. P.B.D.T.S. Nanayakkara**  
Deputy General Manager - Collections

**4 Mr. K. D. M. Sameera**  
Assistant General Manager - Finance & Administration

**5 Mr. T. U. Amaraweera**  
Assistant General Manager - Asset Management

**6 Mr. D. M. P. M. B. Dissanayaka**  
Assistant General Manager - Credit

**7 Mr. S. Sapukotana**  
Assistant General Manager - Business Development

# Senior Management Team

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- 1 Mr. L. G. R. De Silva**  
Senior Manager - Metropolitan Branch
- 2 Mr. K.N.Warnakula**  
Senior Manager - Micro Leasing
- 3 Mr. S.P. Abewickrama**  
Senior Manager - Branches

- 4 Mr. P.H.R.K. Sugathadasa**  
Senior Manager - Internal Audit
- 5 Mr. B.G.W.M. Ariyapala**  
Senior Manager - Special Projects

# Management Discussion and Analysis

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The year 2016/17 was an outstanding year for Vallibel Finance. While the economic conditions continued to be challenging, the Company exceeded its projected growth targets and continued its journey of success, leading the way to achieving an outstanding growth rate in profitability and assets in the industry. This achievement is attributed to the dedication and hard work of our employees, the continued trust and confidence of our customers, and the leadership and strategic foresight provided by the Board of Directors and management.

The path that Vallibel Finance is treading continues to reap its benefits. The Company's focussed strategies aligned to its business values of Simplicity, Trust, Integrity, and Flexibility have proved to be invaluable in our unrivalled journey to success over the last 10 years. As a comparatively young Company in the finance industry market space since relaunch, Vallibel Finance is proud of having achieved this success amidst the long-established giants in the industry.

The re-affirmation of the Company's rating of [SL]BBB- with stable outlook by ICRA Lanka, a group company of Moody's Investors further attests to Vallibel Finance's high standing in the finance community and among the Company's stakeholders. ICRA Lanka also reaffirmed the [SL] BB+ rating with stable outlook for the Company's Rs. 500 Mn unsecured subordinated redeemable debentures programme, and the [SL] AA-(SO) rating with stable outlook for the Company's Rs. 1,000 Mn guaranteed subordinated redeemable debentures programme in March 2017.

Vallibel Finance was also heralded with two globally recognised awards from the Global Banking and Finance Review - 2017, a well-respected magazine of the United Kingdom, renowned the world over. Based on the Company's growth rate in volumes and profitability, we were ranked as the 'Fastest Growing Auto Financing Company - 2017' and the Company's innovative product - Vallibel Auto Draft received an award as the 'Most Innovative Finance Product - 2017'. Awards and recognitions such as these lend to the Company's determination to succeed beyond even our expectations and bring to the forefront the dedication of all Vallibel Finance employees.

**The year under review was an outstanding year for Vallibel Finance. We received external recognition to honour our efforts in innovative product development and in pursuing exceptional business growth. The Company's continued focus on innovative financial products, and delivery of unique solutions to serve the diverse needs of the Sri Lankan people will continue to be our unrivalled purpose as we move to our next phase of growth and achievement.**

Another first for Vallibel Finance was being adjudged as a 'one of the 50 best employers' among elite Sri Lankan companies by the Sri Lanka Best Employer Brand Awards which is endorsed by Asian Confederation of Businesses and CMO Council; at the annual event hosted by the World HRD Congress in November 2016.

While the Company plans for similar success in the years to come, we work on improving; and further refining our innovative and unique product offerings, our efforts to provide exceptional customer service, the simplistic processes in obtaining the Company's products, and our corporate governance and sustainable business practices.

It is Vallibel Finance's belief that such efforts will only reap many rewards for the Company, our investors, customers, employees and other stakeholders by creating long term value for all.

## Vallibel Finance's Growth Trajectory at a Glance

	2012	2013	2014	2015	2016	2017
Customer deposits (Rs. Bn)	4.02	6.27	9.30	12.17	14.80	17.86
Loans & Advances (Gross) (Rs. Bn)	5.90	7.89	10.29	13.16	19.14	25.47
Number of branches & service centres	10	14	18	24	28	32

### Highlights of the Year

The year 2016/17 heralded some key achievements for Vallibel Finance, ensuring that the Company created value to our stakeholders from financial and non-financial perspectives.

The growth achieved by the Company in pre-tax profits of Rs. 1.32 Bn resulted in a 45.27% increase compared to Rs. 911.73 Mn earned in the previous year. The total assets exceeded Rs. 30 Bn during the year under review, reaching Rs. 30.68 Bn as at 31st March 2017, a 34.78% growth compared to the previous year as well as a landmark achievement for the Company. This has catapulted Vallibel Finance to be counted among the leading 10 Licensed Finance Companies which have the largest asset base.

The Company's asset quality profile has also considerably improved in the year under review; resulting in an improved non-performing loan ratio of 2.93%, as at 31st March 2017 compared to 3.76% as at 31st March 2016.

Another landmark achievement for the Company was the increase in the fixed deposits base to Rs. 17.86 Bn as at 31st March 2017 realising a growth of 20.67% compared to the previous year. This ensures the Company's continued position among the leading 10 Licensed Finance Companies who have largest deposit base.

The Company's total lending product portfolio achieved a 34.08% growth in the year under review to reach Rs. 24.78 Bn as at 31st March 2017. This was led by the growth in mortgage loans, personal loans and gold loans as well as the increased demand for the Vallibel Auto Draft product.



### Sri Lanka Best Employer Brand Awards 2016

#### Best Employer Brand Awards

Awarded as 'one of the 50 best employers' among elite Sri Lankan companies by the Sri Lanka Best Employer Brand Awards.

# Management Discussion and Analysis



Microfinance product launch at Kurunegala

Vallibel Finance's focus on increasing and upgrading its network of operations continued in the year under review with four branch openings in Mount Lavinia; Borella; Balangoda; and Uragasmanhandiya, the relocation of the Galle branch, and relocation of the Kalutara Service Centre.

The Company also introduced a new product – Microfinance loans, targeted at self-employed women in the country. This product is aligned to the Company's strategy of providing financial assistants equally to all Sri Lankans.



Microfinance product launch at Negombo

Another highlight was the establishment of the Motor Division in the newly opened Borella branch. This specialised service will bring together our customers and suppliers of vehicles in one physical location enabling easy and convenient vehicle leasing process for all stakeholders involved.

## The Economy in Perspective

### Global Economic Outlook

Global economic growth is estimated at a post-crisis low of 2.3% in 2016, the weakest performance since the global financial crisis. This is mainly attributed to the standstill in global trade, subdued investment, and the sharp rise in policy uncertainty which depressed world economic activity in the year. However, the global economic growth is projected to rise to 2.7% in 2017, mainly reflecting a growth in Emerging Market and Developing Economies.

The struggle of advanced economies with subdued growth and low inflation in a context of increased uncertainty about policy direction, tepid investment, and sluggish productivity growth resulted in reduced economic activity in the United States and, to a lesser degree, in some other major economies. Resultantly, the advanced-economy growth remained at low levels achieving only 1.6% growth in 2016. This weak growth in advanced economies was accompanied by a further weakening of global trade in 2016.



Vallibel Finance – Motor Division, Borella Branch

Emerging Market and Developing Economies grew at 3.4% in 2016, aligned to previous expectations. However, the rise in U.S. yields since early November 2016 led to a notable tightening of financing conditions for Emerging Market and Developing Economies, ensuing in a significant currency depreciation and portfolio outflow for some countries within this group.

The expected global economic recovery in 2017 is reliant on managing the level of policy uncertainty, especially regarding trade. The recent political developments in the United States and the United Kingdom are factors that will heavily influence economic recovery in 2017. However, fiscal inducement in key major economies could lead to stronger-than-expected activity in the near term leading to a positive influence on economic growth.

Source: The World Bank

### Sri Lankan Economic Outlook

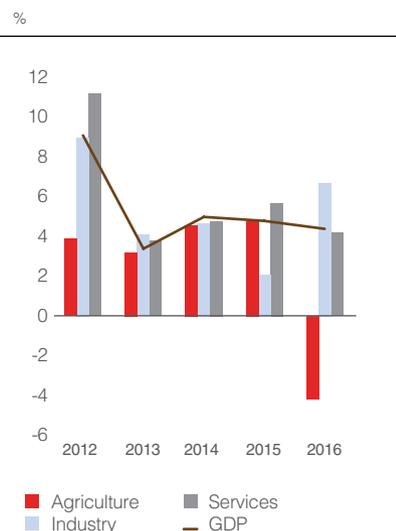
The Sri Lankan economy showed early signs of stabilisation during 2016 in response to corrective actions adopted by the government and the Central Bank. However, sluggish global economic recovery together with the unfavourable weather conditions in the country caused the economy to grow at a slower rate of 4.4% in 2016 in comparison to 4.8% growth achieved in the previous year. However, the Central Bank's tightening of fiscal and monetary policies, resulted in a steady acceleration in quarterly growth from the second quarter of 2016. The economic growth realised in 2016 is mainly attributed to the expansion in investment expenditure during the year, especially in the construction sector.

Consumption expenditure which is the largest expenditure category of the economy, recorded only a modest growth of 4.1% compared to the growth of 10.3% achieved in 2015. This slowdown in consumption was attributed to the slowdown in private sector consumption expenditure due to the tightened monetary and fiscal policies, as well as the reduced public sector consumption expenditure due to the continuing fiscal consolidation efforts.

High inflation levels were observed in some months of 2016 and in the first quarter of 2017 mainly due to the adverse weather related disruptions, tax adjustments and rising international commodity prices. However, the increasing

demand pressures of the economy were evident in the high levels of core inflation which stood at 6.7% at the end of 2016.

### Annual GDP Growth Rate



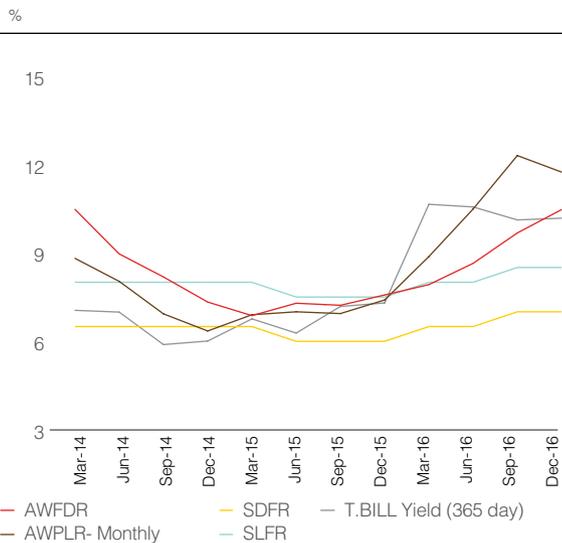
Source: CBSL Annual Report 2016

The exchange rate was mostly stable during the first four months of 2016 mainly due to the intervention by the Central Bank. However, as the exchange rate was increasingly allowed to reflect market conditions thereafter, resulted in an overall depreciation of the Sri Lankan rupee against the US dollar by 3.83% in 2016.

Interest rates increased in 2016, a result of the Central Bank raising key policy interest rates by a total of 100 basis points in two steps, the first in February 2016 and the second in July 2016. As a result, the short term market interest rates also increased considerably during the year. In addition, in March 2017, the Central Bank again adjusted its policy interest rates upwards by 25 basis points, thus retaining a high interest rate regime in the country in the medium term.

# Management Discussion and Analysis

## Movement of Selected Market Interest Rates



Source: CBSL Annual Report 2016

## Financial Sector of the Economy

The financial sector of the economy continued to expand during the year despite the challenging global and domestic market conditions. Stability was also maintained during 2016, without causing any major macroprudential concerns mainly a result of the regulatory measures established for stability. The growth of the financial sector was increased further by the expansion in banking, other deposit taking financial institutions and contractual savings institutions. Overall, the banking sector was able to preserve its capital and liquidity levels well above the statutory minimum requirement in 2016. The sector, however, experienced a reduced growth in assets compared to 2015, which was contrary to the asset growth experienced by Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector which showed an expansion in the asset base.

## The Non-Banking Financial Institutions Sector

Amidst a challenging environment, the robust performance achieved by the LFCs/SLCs sector during 2016, was mainly attributed to asset growth and branch network expansion. The strategic move away from its focussing on its core business of vehicle financing to place more emphasis on other types loan products also contributed to this strong performance. The overall growth of the sector was mainly funded through domestic borrowings. Risks were also maintained at acceptable levels by controlling liquidity and capital levels as well as maintain acceptable levels in Non-Performing Loans (NPLs).

The LFCs/SLCs sector expanded their asset base in 2016 exceeding the one trillion rupee mark while maintaining a marginally lower growth than in 2015. The total asset base of the sector grew by 21.7% in 2016 compared to the 22.3% realised in the previous year.

The credit growth of the sector weakened during the first quarter of 2016 mainly a result of introduction of the Loan To Value ratio (LTV) of 70% in the latter part of 2015 in respect of loans and advances granted for the purpose of purchase or utilisation of motor vehicles by banks and LFCs/SLCs. However, with LFCs/SLCs having increased their exposure to other lending products, the credit growth accelerated during the second half of 2016 resulting in an overall expansion by 21% at the end of 2016, compared to the high growth rate of 31.8% in 2015. The main contributors to the growth realised in 2016 were other loan products such as term loans, revolving loans, microfinance, factoring and draft loans amounting to 73.1% compared to the 23.7% growth realised from finance leases and hire purchases.

The deposits of the sector also recorded only a moderate growth of 10.5% in 2016, compared to 16.1% in 2015. The deposit mobilisation was mainly through time deposits accounting for 95.6% of the total deposits portfolio, whilst the remaining was mainly from savings deposits.

The excess liquidity in the sector witnessed in 2015 continued to remain high during 2016 amidst the increased lending activities of the sector. The overall statutory liquid assets available in the sector remained at a surplus of Rs. 15.4 Bn by end 2016 compared to the stipulated minimum requirement of Rs. 74.7 Bn. The liquid assets to total assets ratio decreased marginally to 7.1% from 7.6% in 2015. It should also be noted that the liquid asset to deposits ratio was also well above the statutory minimum of 10% of time deposits and unsecured borrowings and 15% of savings deposits.

The business expansion of the sector to incorporate new lending products in turn increased the profitability of the sector. The sector's profit after tax was Rs. 31.5 Bn in 2016 compared to Rs. 15.2 Bn in 2015. This more than 100% increase in profitability is attributed to increased business volumes, improvement in other income and greater operational efficiency of the companies in the sector.

The Central Bank's close monitoring of the developments in the LFCs/SLCs sector, especially the push to reduce the dependence on motor vehicle related leasing products as a result of the policy measures taken to curtail vehicle importation since 2015, together with its emphasis on strengthening the regulatory framework has enabled the sector to maintain its growth momentum amidst the challenging domestic and global economic slowdown.

#### Snapshot of the LFCs/SLCs Sector

	2016	2015	2014
<b>Assets</b>			
Total Assets (Rs. Bn)	1211.9	996.1	814.6
Loans and Advances (Net) (Rs.Bn)	962.7	795.8	603.7
Gross Non Performing Advances to Total Advances (%)	5.3	5.7	6.9
Net Non Performing Advances to Total Advances (%)	1.2	1.6	2.3
<b>Liquidity</b>			
Total Deposits (Rs.Bn)	531.0	480.6	414.1
Total Borrowings (Rs.Bn)	438.7	314.3	217.4
Liquid Assets to Total Assets (%)	7.1	7.6	9.6
Liquid Assets to Deposits & Borrowings (%)	9.3	10.0	13.0
<b>Capital</b>			
Total Capital (Rs.Bn)	146.1	123.1	116.9
Core Capital Ratio (%)	11.4	10.5	12.8
Total Risk Weighted Capital Ratio (%)	11.7	11.2	13.5
<b>Earnings</b>			
Interest Income (Rs.Bn)	188.9	150.4	131.2
Net Interest Income (Rs.Bn)	92.1	82.2	62.1
Profit Before Tax (Rs.Bn)	47.2	28.5	23.9
Return on Assets (%)	4.0	3.0	3.1
Return on Equity (%)	23.1	12.4	14.0

Source: CBSL

# Management Discussion and Analysis

## Business Performance Review

The Company's two business lines – Deposits and Lending, performed reasonably well in terms of industry levels. The Company's focussed strategies to increase share of the market for its target segments has reaped benefits that will create value to our stakeholders in the long term.



## Deposits

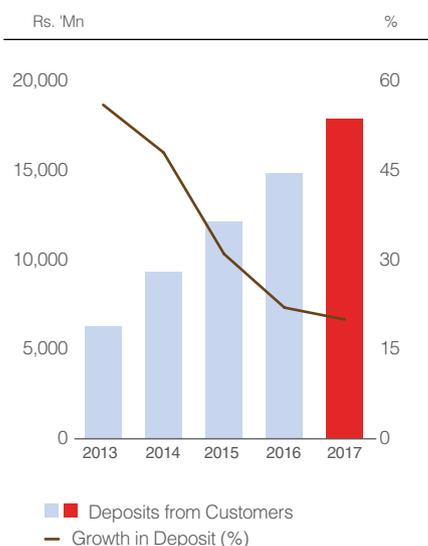
Deposits being the main source of funds for the Company, the year-on-year growth of the deposits portfolio is indicative of the high level of trust and confidence placed on Vallibel Finance by the public. The Company's growing deposit base is also a testament to its values and ethical and transparent business operations over the last 10 years.

The Deposits products having been offered to all customers since inception, offer diverse terms from one month deposits to five-year deposits dependent on customer requirements. The interest payable also varies from monthly payments to payments only at maturity of the fixed deposit.

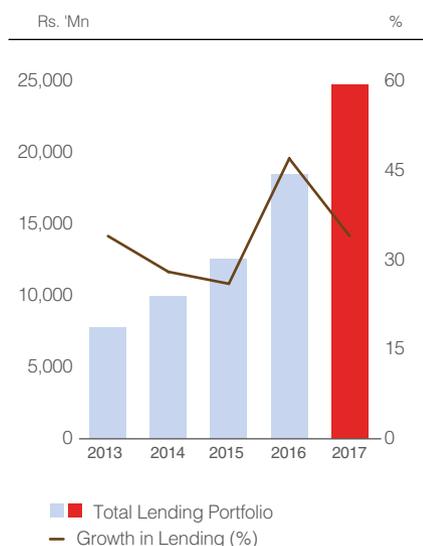
## Product Performance:

The total deposits of the Company grew significantly by 20.67% in the year under review to reach Rs. 17.86 Bn as at 31st March 2017.

### Growth in Deposits Base



### Growth in Lending



### Lending Products Portfolio

Vallibel Finance's lending portfolio performed commendably amidst the changing macroeconomic environment of the country. While the lending rate tended to fluctuate throughout 2016, the Company robustly managed its lending rate to customers through targeted strategies to cause the least possible inconvenience.

Despite this situation, the total lending portfolio of the Company grew notably by 34.08% to reach Rs. 24.78 Bn compared to Rs. 18.48 Bn in the previous year. The key drivers of portfolio growth were personal loans, gold loans, mortgage loans and leases which grew by 118.03%, 71.68%, 70.29% and 25.68% respectively.

As in previous years, leases and mortgage loans remain the primary contributors to portfolio growth, accounting for 84% of the total gross lending portfolio as at 31st March 2017.

Vallibel Finance is indeed unrivalled when it comes to growth in its lending portfolio. As seen over the past five years, the Company has been successful in its growth strategies to building a long term loyal customer base.

### Leasing

Leasing continues to be the principal business of the Company. While leasing products on offer are the generic leasing product marketed by every other player in the market place, Vallibel Finance has been successful in innovatively customising its products to suit individual customer requirements.

The Company offers two categories in leasing - micro leasing and general leasing. Micro leasing products are targeted at financing low investment vehicles such as three wheelers and motor bikes, with tailor-made payment plans and competitive interest rates. General leasing on the other hand is targeted at the medium to high income earners who would not be averse to purchasing products that are capital intensive.

In the year under review, the leasing portfolio growth was curbed due to Government policy implemented to restrict import of vehicles in the latter part of 2015. The effects of the 70% loan-to-value ratio and the increase in import duty, and revisions in import duty tariff which came into effect in 2016 had a significant negative impact on vehicle

# Management Discussion and Analysis

registrations which consequently impacted the demand for leasing products. This situation was further escalated by the increasing trend in interest rates during 2016 leading to a worsened negative impact on credit growth.

However, Vallibel Finance was able to sustain growth for its leasing products because of the focussed approach in providing customers an innovatively designed product personalised to meet their specific needs, easy access to our widespread branch network, high level of customer service, and targeted marketing activities. Further, products such as Auto Draft, introduced in the year 2014/15, contributed toward keeping the growth momentum, and resultantly, realised an increased demand.

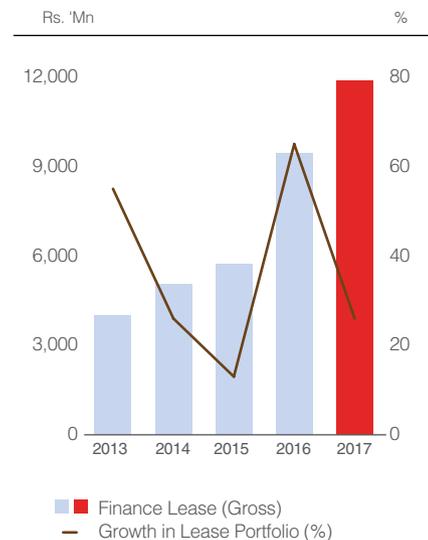
## Product Performance:

The year-on-year growth of the Company's gross leasing portfolio as at 31st March 2017 was 25.68% amounting to Rs. 11.89 Bn, less than half the growth of 65.39% recorded in the previous year. The total number of lease facilities granted reduced by 15.87% to 10,260 new leasing facilities in the year under review, while the total disbursed amounted to Rs. 6.80 Bn. Of the total leasing facilities granted, micro leasing facilities amounted to 60%.

In the year under review, interest income from finance leases amounted to Rs 2.15 Bn compared to Rs. 1.62 Bn recorded in the previous year, resulting in a year-on-year growth of 32.89%.



## Growth in Lease Portfolio



## Hire Purchase

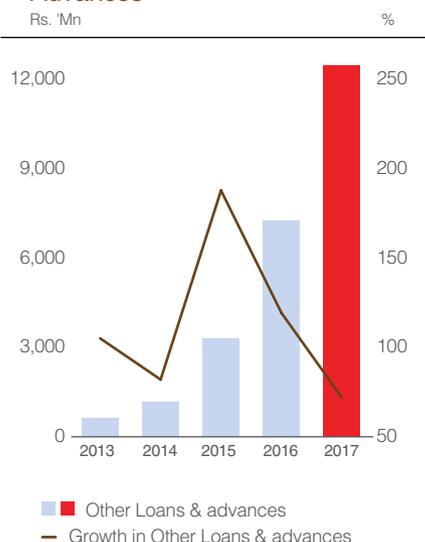
Under hire purchase agreements facilities are granted to customers for their registered vehicles.

Gross hire purchase portfolio at the end of the year under review was Rs. 954.61 Mn compared to Rs. 2.31 Bn recorded during the previous financial year end. The reduction was due to the strategic decision that the Company took since 2015 not to grant new facilities under hire purchase category.

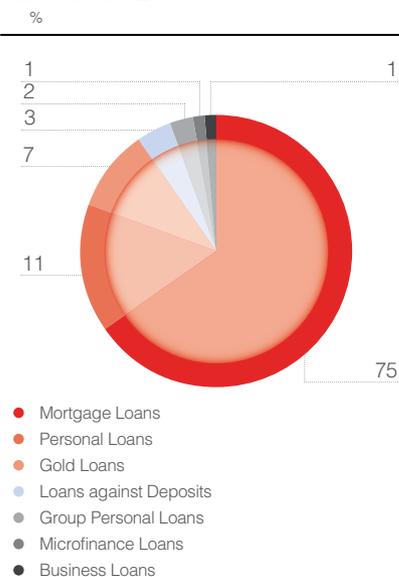
## Other Loans and Advances

This comprises of Mortgage Loans, Personal Loans, Gold Loans, Loans against Fixed Deposits, Group Personal Loans, Microfinance Loans and Business Loans. The other loans and advances gross portfolio achieved a notable growth of 71.29% amounting to Rs. 12.63 Bn compared to the Rs. 7.37 Bn recorded in the previous year.

### Growth in Other Loans & Advances



### Composition of Other Loans and Advances - 2017



### Mortgage Loans

Mortgage loans are the second major product category of the Company and accounts for 37% of the total lending portfolio. Vallibel Finance provides two main products under this category - Vehicles Mortgage Loans and Property Mortgage Loans, which offer facilities for customers to obtain funds by mortgaging their assets.

Mortgage loan facilities are personalised for specific financial situations and needs of the customer. The Company's competitive interest rates which are on par with prevailing market rates combined with a friendly and speedy customer service, and easy access to the Company's branch network drives the growth for this product category.

### Product Performance:

The gross mortgage loan portfolio increased by 70.29% to Rs.9.46 Bn from Rs. 5.56 Bn earned in the previous year. The main reasons for the growth were the Company's innovative customisation of products to cater to individual customer needs and the increasing popularity of the mortgage loan product offered by the Company. Vallibel Finance is satisfied with the performance of this product category considering the downturn experienced in the leasing industry and the constrained business environment of the country during 2016.

The total number of mortgage loan facilities granted by Vallibel Finance in the year under review was 4,891. The interest income earned from the mortgage loan portfolio in the year under review amounted to Rs. 1.29 Bn.

### Property Mortgage Loans

The Company's property mortgage loan product which was introduced to the market in 2014 is slowly becoming more popular and now accounts for Rs. 605.58 Mn of gross mortgage portfolio. This product is mainly targeted at government and private sector employees, self-employed professionals and businessmen.

# Management Discussion and Analysis

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## Gold Loans

A gold loan allows individuals to obtain loans secured against their gold jewellery. The value of the loan will depend on the value of gold at the date of obtaining the funds.

The continued growth in the Company's gold loan base is attributed to branch network expansions and reach by customers. In the year under review, the four new branches opened by the Company included gold loans in their product portfolio, while, one of Vallibel Finance's older branches in Minuwangoda launched the gold loan product on 27th July 2016. Thus, the Company now offers this product in a total of 23 locations across the island.

### Product Performance:

Gold loans were introduced by Vallibel Finance in 2013. Since, then the gross gold loan portfolio of the Company continues to grow, and has reached Rs. 899.24 Mn as at 31st March 2017.

## Microfinance

The growth of the microfinance sector is primarily due to the increasing demand for financial assistance from microenterprises and low income individuals. Thus, Vallibel Finance is poised to take advantage of the growing market for microfinance products.

In the year under review, the Company introduced its new Microfinance product targeting the growing demand for financial assistance by small home-based business enterprises primarily operated by women. This product offering is aimed at empowering women in the country to develop their home-based business enterprises while encouraging others to venture into the arena.

### Product Performance:

As at the end of the year under review, the gross microfinance portfolio amounted to Rs. 109.49 Mn. This product was still in its initial stage of implementation being offered only in the Company's Negombo and Kurunegala branches.

## Personal Loans

Through the personal loan facility, the Company provides financial assistance to our customers for their personal needs offering comparatively low interest rates and easy and convenient process compared to other products available in the market.

### Product Performance:

The gross personal loan portfolio performed exceptionally well in the year under review, achieving a growth of 118.03% amounting to Rs.1.38 Bn compared to the Rs. 0.63 Bn earned in the previous year.

## Business Loans

This loan is a revolving facility that offers flexible financing to small and medium sized businesses which require short term loans to purchase fast moving stocks. The availability of this loan facility enables these businesses to obtain short term working capital boosts to enhance their business operations without any interruptions and financial constraints. As an additional convenience, repayment of this loan is possible either on a daily or weekly basis, while the Company also offers door-to-door collections.

The business loans facility offered by Vallibel Finance was extended to the product portfolio of all islandwide branches of the Company in the year under review. Thus far, this product was only offered in two branches. However, the success achieved was a testament for the Company to extend the business loan facility in order to benefit the customer and create value for shareholders in the longer term.

## Group Personal Loans

The Company's is aimed at salaried employees from established organisation in the country who require financial assistance to enhance and advance their lifestyle and living standards. Customers can obtain a group personal loan facility for the purchase of home furniture; appliances and equipment, payment of education fees and related expenses, purchase of gold jewellery and on other forms of consumer expenditure. The repayment of the load instalment is linked to the salary of employees and directly remitted to Vallibel Finance form their employer.

## Vallibel Auto Draft

Vallibel Finance's unique product, 'Vallibel Auto Draft' launched in the financial year 2014/15 continued to lead its niche market space in the year under review.

The 'Vallibel Auto Draft' which is branded as a speed draft product and deemed more economical than a bank overdraft facility, is a one year vehicle loan with an annual settlement. Offering highly competitive rates, the unique feature of this product is that repayment is designed to be only payable for the interest amount in the first eleven months, while the capital is expected to be paid in the 12th month together with the interest amount. However, security is required to be provided for this leasing facility. This product is marketed as a hassle-free easy to obtain loan and is targeted at traders and businessmen in the cities and towns where Vallibel Finance has a branch.

Vallibel Auto Draft proved to be an invaluable product in the Company's portfolio in the year under review as it helped alleviate the downturn experienced in the industry.



## Operational Review

Vallibel Finance has reached exceptional successes over the last 10 years mainly due to its understanding of the financial requirements of the country's grassroots coupled with our innovative product offering. The successes however, would not have been possible without the Company's focus on exceptional product and service marketing, expanding branch network, information technology upgrades, and achieving high levels of customer satisfaction.

## Unrivalled Firsts...

Vallibel Finance is proud to wear the mantle of being the first finance company to have opened a branch in the town of Uragasmanhandiya in the Galle district.

Borella branch is a first of its kind for Vallibel Finance with its one-stop-shop motor division targeted at capturing the thriving motor leasing business of the area.

## Operational Highlights of the Year

- Vallibel Auto Draft, the Company's unique product brand and the MESSO product range continued to lead its niche automobile product market.
- Gold Loan and Property Loan products strengthened the diversity of the product portfolio of Vallibel Finance.
- The relatively newly launched Business Loans product was expanded to be offered in all the Company's branch networks across the island.
- Reached new markets and customers with the extension of the Company's branch network.
- IT Solutions to cater to customer demand for digital-based solutions for the Company's services.

## Expanding Branch Network

Vallibel Finance has developed a widespread presence in the country over the last 10 years since its relaunch. The Company's strategically located branches serve a wide spread customer base in urban areas as well as customers who previously had limited access to financial products. The Company's ability to understand the financial requirements of the country's grassroots; coupled with our innovative product offering has further strengthened our focus on ensuring that we continue our expansion strategy to reach even remote towns and far-flung communities. Assisting this expansion drive is the Company's highly regarded reputation that at times reaches people even before we do.

# Management Discussion and Analysis



*Mount Lavinia branch opening*

## **New Branch Openings**

During the year under review, Vallibel Finance opened four new branches in Mount Lavinia, Borella, Balangoda and Uragasmanhandiya.

The Borella branch is a first for Vallibel Finance with the début of a one-stop-shop motor division to specifically serve the thriving automobile business in the area. This branch is also unique in that it allows partner motor vehicle agents/importers to display their latest vehicle models within the branch premises and acts as a meeting point for suppliers and buyers.

Another first for Vallibel Finance was the opening of its branch in Uragasmanhandiya, a small town in the Galle district that shows promise in the years ahead. The Company is proud to be the first finance company to venture into this little heard of town by most city dwellers.

The Balangoda and Mount Lavinia branches are strategically positioned to capture the growing demand for financial products by the people and businesses that live in these areas.



*Relocated Galle branch*

## **Relocation of Branches/Service Centres**

During the year under review, Vallibel Finance relocated its Galle branch from the outskirts of town to its main street. This new location which has a floor space 3.5 times greater than the previous premises; and ample parking facilities, is owned by the Company. This move is aimed at providing greater convenience for our customers, while enabling the Company to cater to the greater demand for finance products in the area.

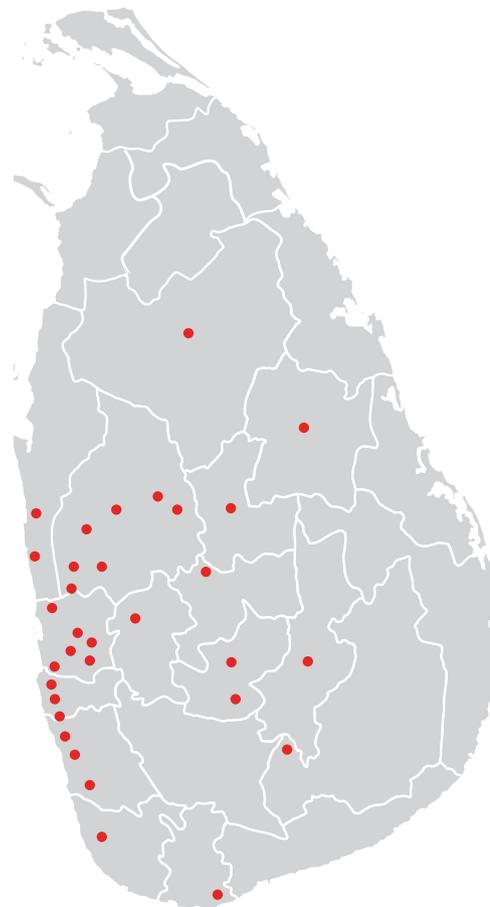
Recognising the exponential potential of the Kalutara District, Vallibel Finance relocated its Kalutara Service Centre to larger premises in the main town. This move will strategically position the Company to meet increasing demand for financial products, and enable the Company to serve existing customers better while providing greater convenience.



*Mount Lavinia branch opening*

## Geographical Presence

Location	Location
1 Colombo (Head Office)	17 Malabe
2 Maharagma	18 Panadura
3 Minuwangoda	19 Nugegoda
4 Kandy	20 Bandarawela
5 Aluthgama	21 Kalutara
6 Ratnapura	22 Anuradhapura
7 Kiribathgoda	23 Kegalle
8 Matara	24 Rajagiriya
9 Kurunegala	25 Kaduruwela
10 Negombo	26 Piliyandala
11 Gampaha	27 Warakapola
12 Galle	28 Wattala
13 Chilaw	29 Mount Lavinia
14 Kuliyaipitiya	30 Borella
15 Embilipitiya	31 Balangoda
16 Moratuwa	32 Uragasmanhandiya



## Expansion of the Products and Services Portfolio

The Company's focus on serving the diverse individuals in the country, resulted in the launch of the Microfinance product in April 2016. This product caters to the needs of low income individuals and microenterprises; however, Vallibel Finance is particularly targeting a niche segment – that of self-employed women who otherwise have limited access to financial assistance from existing finance products in the market space. The Company anticipates this product to eliminate this gap and meet customer requirements for such finance products in the medium to longer terms, while also empowering women to become confident business owners with a long term view to home business expansion and growth. As at the year end, the product was still in the initial phase of deployment, and is currently being offered by the Company's branches in the towns of Negombo and Kurunegala, which were identified as the hotspots for self-employed women with the need for financial assistance.



*Borella branch opening*

# Management Discussion and Analysis

The MESSO range of products was another first for the Company and the finance industry. This product range was launched during the year is focussed on the financing requirements of medium priced automobiles, where Vallibel Finance has partnered with leading automobile agents/ importers in the country to provide convenient services to our customers.

A new service launched in the year under review by Vallibel Finance is the specialist Motor Division in the newly opened Borella branch. This Motor Division acts as a one-stop-shop, which caters to the Company's customers' automobile ownership requirements.

## Marketing Activities

Being a part of an industry with many leading players in a highly competitive market place, Vallibel Finance places critical importance towards safeguarding the Company's market share of our products and service. Accordingly, much emphasis and effort is expended to promote our products and services in the right way, at the right time, using the correct media to existing customers and identified new target markets. The marketing strategies of the Company continue to be refined and updated according to changing consumer demands, and the new-age communication methodologies available to corporates to penetrate further in to the financial market place of Sri Lanka.



*Micro leasing promotion at Panadura*



*Hoarding at Colombo 07*

The marketing activities of Vallibel Finance centred on promoting the Company's newly launched products and services, the expanding branch network operations, and the re-iteration of Vallibel Finance's strategy to bring finance products to people from all walks of life in the country. This was carried out through general advertising to spread the word among the masses, as well as through more focused marketing activities which promoted the Company's new products, services and reach to the niche target market segments.

In the year under review, Vallibel Finance continued market penetration strategies aimed at increasing the cross-selling opportunities of our increasing product range to existing loyal customers. This was mainly fronted through the expanding distribution reach of branches and door-step services offered for customer convenience.

Considering the external economic environment of increasing interest rates, the Company focused on marketing re-priceable products such as Vallibel Auto Draft and other short term lending products that would be more affordable to our loyal customers.

## Marketing Communications

Vallibel Finance uses all forms of traditional media for advertising and marketing purposes. In the year under review we increased the number of strategically placed holdings, bill boards and street name board advertising and also continued with the advertising and promotional campaigns. Further, with the increasing use of digital



*Sponsored event at BMICH*

platforms for marketing and promotional activities, the Company also increased its digital and social media presence.

The Company also undertook some special island wide promotional campaigns together with our partners to attract new customers to our leading auto finance related product range.

The door-to-door marketing and personalised promotions of Vallibel Finance's product range was increased during the year to aid in the strategy to increase the Company's market share and manage cash flows.

The dynamic and segregated market place for finance products makes it vital for Vallibel Finance to continuously focus on bringing a high quality unparalleled service to our customers. Accordingly, the Company increased its focus on customer retention and satisfaction during the year under review.



*Vallibel Finance partnered with EPIC Lanka Technology Group*

## **Information Technology Advancements**

The constant changes in technology usage and advancements makes it critical for the Company to concurrently upgrade and develop its information technology processes and services. Adoption of state-of-the-art IT systems and processes, together with IT security policies and processes, business continuity and disaster recovery plans ensures that Vallibel Finance is able to consolidate its position as a tech savvy future-oriented company, providing customer convenience through process efficiencies.

The end-to-end document management solution deployed in partnership with EPIC Lanka Technology Group has assisted the Company in progressing towards becoming a more efficient and paperless enterprise serving customers in a secure manner while simultaneously increasing the mechanisms in place towards enhanced customer data privacy.

The core financial management system of Vallibel Finance was also upgraded during the year under review to integrate its new modules for microfinance and business loans products to facilitate convenience and optimal process operations of the Company

Towards reaching greater process efficiencies in day-to-day business operations, the Company's IT team developed a sophisticated Management Information System (MIS) to consolidate information in one central location while generating various reports to support prompt and accurate decision making by management.

The Company's dynamic and skilled IT team also continues to overlook the Company's investments in information technology while proposing new and enhanced upgrades to align systems with current developments.

## **Information Technology for Customer Convenience**

Today the use of smart phones and other smart devices by consumers for information collection and dissemination as well as for everyday activities such as banking, bill payments and even supermarket shopping prompts companies offering products and services to the masses to adopt similar technologies to their own customers to remain competitive in the ever-expanding digital market place.

# Management Discussion and Analysis

As a first step in adopting such technology, Vallibel Finance now provides branch-less facilities through Point of Sale (POS) terminals to our customers in relation to payments of micro loan instalments and issuing of in-line receipts. Further, a real-time system that updates customer records instantly was also implemented. This branch-less banking solution introduced by the Company was a software solution that uses GPRS technology for Point of Sale (POS) terminals which were developed by ATSL TeleSoft (Pvt) Ltd.

## Human Resources Review

Our people are a key stakeholder group of the Company. They ensure that the Company's other stakeholder groups are satisfied by the Company's business operations. The skills and experience of our people together with their belief in the Vallibel Finance values have been a major contributing factor towards the Company's unrivalled successes over the years. Accordingly, the Company too rewards and recognises employees for their hard work and determination to succeed beyond expectations. The Company treats all employees equally and in a humane manner, providing them with opportunities to grow and prosper in their chosen career path. Further, the Company also has in place training and development, health and safety, and engagement programmes for employees to gain new knowledge and skills, ensure their good health, and encourage work-life balance respectively.

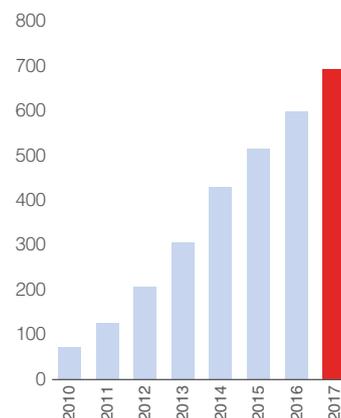
As at 31st March 2017, the Company employed 694 people to carry out business at the head office and the branch network. During the year, in keeping with the expanding business operations 297 new employees were brought into the Vallibel Finance family.

### Employees by Category 2016/17

Category	Number of Employees
Senior Management	13
Middle Management	91
Senior Executives	38
Executives / Junior Executives	174
Operational Staff	334
Clerical Staff	42
Casual Employees	2
<b>Total</b>	<b>694</b>

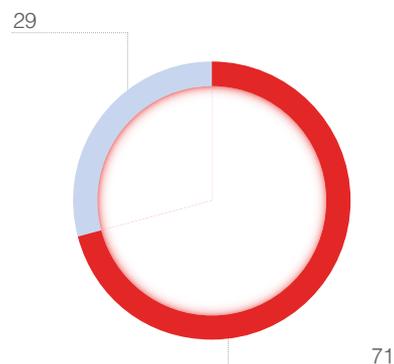
## Employment Growth over the Years

No. of Employees



## Gender Analysis - 2017

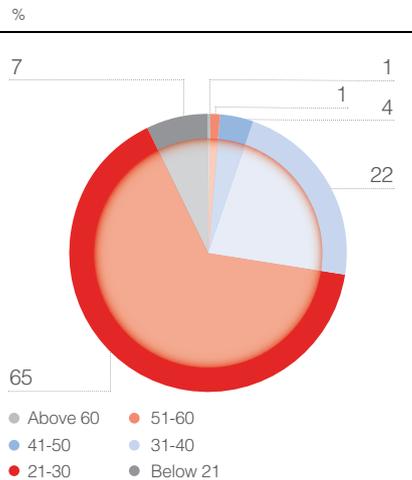
%



● Male  
● Female

## Age Analysis of Employees

2016/17



Vallibel Finance's workforce is mainly comprised of millennials and Generation Y individuals, as indicated by 65% of people falling into the age category of between 21 to 30 years. This bodes well for the ability of the Company to successfully evolve with the dynamically changing operating environment driven by the enthusiasm of young employees.

The Company's success can be attributed to the dedication and loyalty of our employees. Over 50% of our employees have been with the Company from between one to five years, while the majority of the managers of Vallibel Finance have been with us for over five years. This showcases that nearly 70% of our employees have been with the Company for more than half the Company's lifetime...an unrivalled statistic indeed.

### Training and Development

Employees of Vallibel Finance are given ample opportunity to participate training and development programmes. During the year under review 177 employees participated in external training programmes conducted by leading professional and institutional organisations. These programmes were identified with due consideration given to the training requirements of employees and covered subject areas such as credit, leadership, performance

achievements, customer relations and service, marketing, human resource management, risk management, budgeting and forecasting, taxation, microfinance, and market trends and emerging issues. All employees participate in internal training programmes conducted by Department Heads aimed at knowledge dissemination and on-the-job skills training.



*Managing Director addressing a training session*

Ensuring that training is an on-going process, the Company also conducts monthly training sessions for the management, business units, and supporting departments headed by senior management aimed at aligning skill levels of employees on par with the new processes and procedures implemented by the Company continuously.



*Career Development session conducted to Admin. staff*

# Management Discussion and Analysis

## Employee Engagement Initiatives

The Company's employee engagement initiatives are intended to encourage employees to participate in non-work related activities such as sports, community service and soft skills development while giving them an opportunity to interact socially with their colleagues.

## Sports Club Activities

During the year under review the Vallibel Finance Sport Club continued to promote participation in sports to employees. This year too, the Company's cricket team participated in the MCA "E" Division 30-Over League Tournament organised by the Mercantile Cricket Association of Sri Lanka.

Another much awaited event organised by the Sports Club was the 'Vallibel Finance Sports Day' an annual gathering for employees to shed formalities and have some fun and enjoyment with colleagues with a little friendly rivalry added in. This year the sport day was held in November 2016 at the Moragasmulla Sports Stadium, Moragasmulla, Rajagiriya. Employees were divided in to four teams - Blue Thunders, Green Hunters, Golden Warriors, and Red Arrows and had to compete in various activities for the champion team position. While Team Green Hunters had an epic win, all other teams put in substantial effort to achieve success. The event was a remarkable success with an 100% employee participation.



Winning team of the Sports Day - 2016



Vallibel Finance Sports Day - 2016

## Other Events and Activities

Traditionally Vallibel Finance organises an Annual Business Review session for management level employees across the Company. This year the event was held at The Hilton, Colombo on 3rd April 2017. This event also combines as the setting for rewarding 'Top Performing' branches of the Company in due recognition of the hard work put in by employees during year.



Annual Business Review Session at Hilton, Colombo

An event conducted quarterly by the Company is a 'Quarterly Business Review session' for branch managers followed by cocktails. This provides an opportunity for colleagues from the widespread branches of the Company to mix and mingle in a social setting.

Many of the Vallibel Finance branches also organise get-together for their employees and customers. During the year under review the Maharagama and Kurunegla branches, and the Gampaha and Malabe Service Centres



*Rewarding performers, at the Annual Business Review Session at Hilton, Colombo*

organised such an event providing an opportunity for loyal customers to interact with staff members of the branches. The event organised by each of these branches/service centres coincided as anniversary celebrations and were used to felicitate the loyalty of customers and employees alike.



*Get-together organized by Maharagama branch.*

### **Strategising for the Future**

The year just past was an exceptional year for the Company's operations. Vallibel Finance achieved much in terms of operational and business successes supported by the trust and confidence of our customers and the faithfulness of our employees in exceeding our expected goals. While we celebrate our past achievement, the Company also laid the foundation for the success of the coming year.



*Get-together organized by Malabe Service Centre*

Pursuing the pervasive strategy of product innovation and development, the Company plans to introduce innovative hybrid financial products to cater to changing customer demands. In addition, the Company will continue to strengthen the existing product portfolio and add-on modern and traditional products to cater to customer requirements. To further add value to our customers, the Company will also review the pricing and customisation of our products and services, aimed at giving our customers the best value for money products and services.

Continuing with the concept of enhanced customer service and convenience, Vallibel Finance plans to set-up island wide ATMs which will allow our customers to make payments and receive funds 24/7 all the year through. Further, offering competitively priced savings products, the Company also has plans to expand the savings base.

Network development strategies through innovative delivery channels and traditional branch and service centre expansions will continue to be an area of focus in the coming year. Accordingly, plans have progressed to open new branches in Nuwara Eliya, Hanwella, Bambalapitiya, Kurunegala, Wennappuwa, Katugastota, Dambulla, Avissawella in the coming years.

Vallibel Finance continued its promised growth story from the previous year and moved on to achieving success in all business aspects in the year under review. The Company's focus on becoming an unrivalled enterprise in the financial industry sphere only strengthens as we mature and grow. We are here to stay...serving our customers to the best of our abilities, taking on challenges, and seizing opportunities to meeting our vision for the future.

# Financial Performance Review

**The financials speak for themselves... During the year 2016/17, revenue growth by 47%, growth in pre-tax profits by 45% and 42% growth in profit after tax ensured our investors were rewarded by an earnings per share growth of over 40%.**

The growth achieved by the Company in pre-tax profits of Rs. 1.32 Bn resulted in a 45.27% increase compared to Rs. 911.73 Mn earned in the previous year, while total revenue also grew by 47.47% to Rs. 5.11 Bn in the year under review compared to 19.75% growth achieved in the previous year. Total interest income of Rs. 4.60 Bn which realised a growth of 41.68%, was the main contributing factor to the growth in profitability and revenue in the year under review.

Consolidating Vallibel Finance's financial position as a profitable and growing financial institution, total assets exceeded Rs. 30 Bn during the year under review to reach Rs. 30.69 Bn with a 34.78% growth compared to the previous year. This is a landmark achievement for the Company which has catapulted Vallibel Finance to be counted among the leading 10 Licensed Finance Companies who have the largest asset base. The Company also achieved a fixed deposit base of Rs. 17.86 Bn during the year under review, putting Vallibel Finance among the leading 10 Licensed Finance Companies who have the largest deposit base.

For Vallibel Finance, these key financial highlights portray the story of achievement in 2016/17. The other financial results of the Company play a critical role in supporting these achievements in key results and are the basis of creating wealth for our shareholders and the growth of the Company during the year under review.

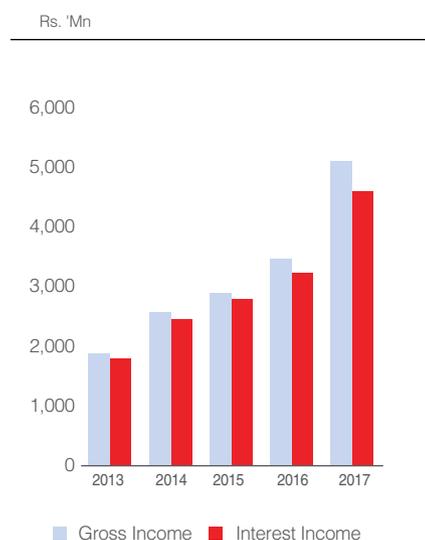
## Growth in Income

The income growth of the Company was mainly supported by the loans and advances portfolio growth of 34.08% during the year under review which earned an interest income of Rs. 4.23 Bn, a 39.10% increase compared to the 16.42% increase recorded in the previous which amounted to Rs. 3.04 Bn.

An added boost to total income was also realised by the increase in interest income on investments which earned Rs. 371.14 Mn, and other operating income which earned Rs. 517.43 Mn in the year under review.

Resultantly, the total income of the Company grew by 47.47% to Rs. 5.11 Bn in the year under review compared to Rs. 3.47 Bn earned in the previous year.

## Composition of Income



## Total Interest Income

The growth in interest income from the leasing portfolio was 32.89% amounting to Rs. 2.15 Bn during the year under review compared to Rs. 1.62 Bn earned in the previous year. Hire purchase contributed an interest income of only Rs. 280.23 Mn to the total income during the year compared to Rs. 648.83 Mn earned in the previous year, a

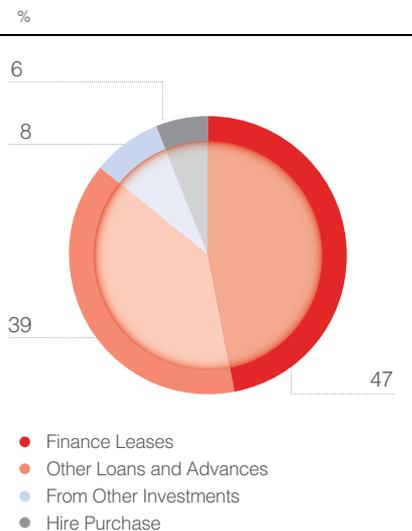
result of the Company's strategy to halt new hire purchase agreements in the current operating context. However, interest income from other loans and advances grew significantly achieving a 132.76% growth amounting to Rs. 1795.88 Mn, due to the rapid expansion in business volumes with the expansion of business lines under this category, compared to Rs. 771.55 Mn earned in the previous year.

Other interest income which is comprised of interest earned on fixed deposits with banks and other finance companies, and interest income from investments in government securities such as Treasury Bills, Treasury Bonds, etc, also increased by 79.70% during the year under review amounting to Rs. 371.14 Mn.

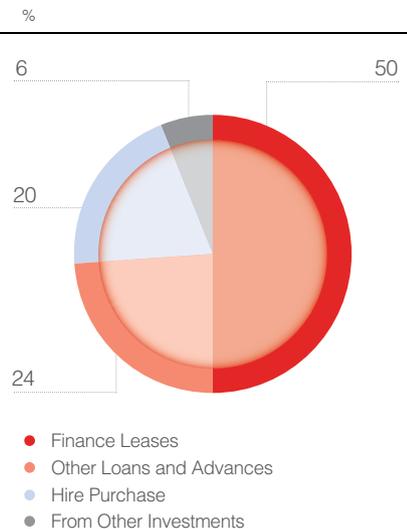
Resultantly, the total interest Income of the Company expanded by 41.68% to reach Rs. 4.60 Bn during the year under review compared to Rs. 3.24 Bn earned in the previous year.

Leasing however, continues to be the largest contributor to total interest income accounting for 46.77% of the total interest earned by the Company during the year under review.

### Composition of Interest Income - 2017



### Composition of Interest Income - 2016



### Total Interest Expense

During the year under review the Company's total interest expenses increased to 65.95% amounting to Rs. 2.59 Bn compared to Rs. 1.56 Bn recorded in the previous year. Of the total interest expenses, interests on customer deposits is the highest at 72%, while the balance 28% comprises of interest due to banks, debt issued and other borrowed funds.

The main cause of the increase in interest expenses was the increased interest rates offered for public deposits on par with the increasing interest rates in the country during 2016. As a result, the deposit interest expenses of the Company increased by 48.92% amounting to Rs. 1.80 Bn compared to only a 7.49% increase realised in the previous year which due to the prevailing low interest regime in the country in 2015.

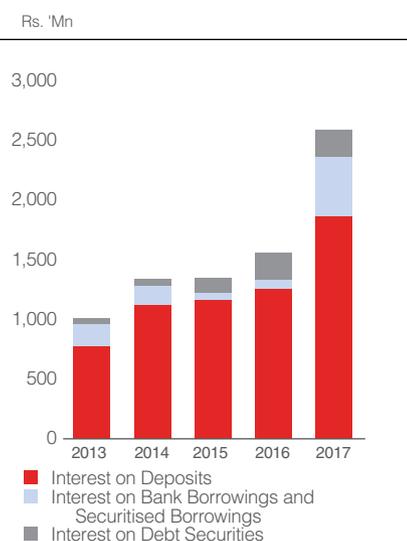
# Financial Performance Review

During the year under review the Company increased exposure to long term bank borrowings. The Company obtained gross new loan facilities of Rs. 5.0 Bn during the year under review to support rapid operational expansions, to strengthen the liquidity position of the Company and to have longer tenor facilities to bridge maturity mismatches.

Thus, interest expenses on bank borrowing and securitised borrowings increased by 520.31% to Rs. 499.29 Mn in the year under review having only been Rs. 80.49 Mn in the previous year.

The Company did not issue any new debentures during the year under review and total debenture interest from previously issued debentures by Vallibel Finance amounted to Rs. 222.41 Mn.

## Composition of Interest Expense



## Net Interest Income

The net interest income of the Company increased during the year under review, albeit at a slower rate than previous years, due to the increase realised in funding costs by the Company, a result of the prevailing macroeconomic environment of upward movements in interest rates in 2016.

The net interest income of Vallibel Finance however, increased by 19.25% amounting to Rs. 2.01 Bn compared to Rs. 1.69 Bn recorded in the previous year, mainly a result of the Company's focused re-pricing strategies and the proactive adjustments undertaken to funding structure during the year under review.

### Net Interest Income (Rs. Mn)

For the year ended 31st March	2013	2014	2015	2016	2017
Total Interest Income	1,792	2,452	2,800	3,245	4,597
Total Interest Expense	1,009	1,340	1,344	1,559	2,587
Net Interest Income	783	1,111	1,455	1,686	2,011

### Other Operating Income

Other operating income of the Company comprising mainly of fee and commission income; early termination income; redemption income-unit trusts and other income amounted to Rs. 517.43 Mn during the year under review. Similar to previous years, fee and commission income, and early termination income account the largest share of total other operating income, having contributed 88% during the year under review.

### Total Operating Income

Total operating income which comprises of net interest income and other income increased by 32.39% recording an earning of Rs. 2.53 Bn in the year under review, compared to Rs. 1.91 Bn in the previous year. This increase was mainly driven by the growth in interest income and other operating income. Net interest income contributed toward 80% of total operating income.

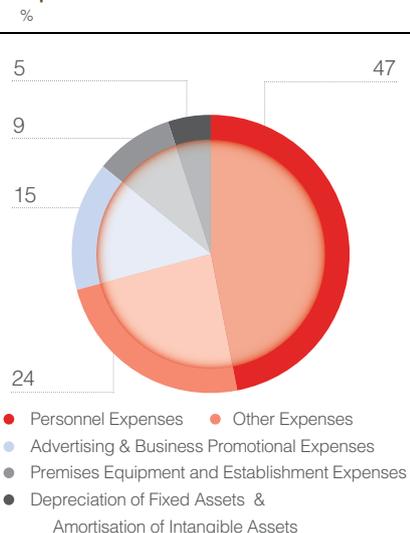
### Total Operating Expenses

During the year under review the Company experienced an increase in total operating expenses by 26.18% amounting to Rs. 1,170.59 Mn in comparison to the previous year.

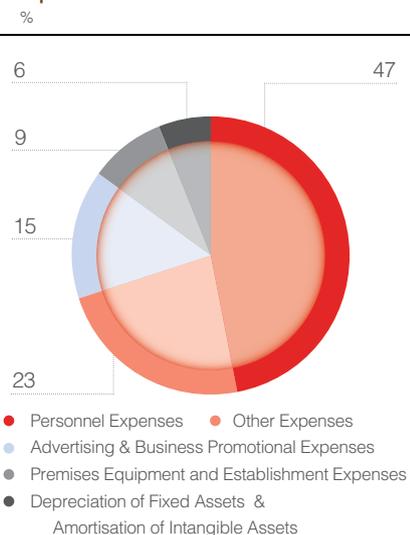
Personnel expenses increased by 25.97% to Rs. 549.31 Mn during the year under review, mainly due to branch and business line expansions resulting in increased employment of 94 people, and the upward revision of benefits provided to employees of the Company. As a result, personnel expenses continue to be the largest operating expense incurred by the Company, contributing 47%.

During the year under review, premises, equipment and establishment expenses grew by 17.94% to Rs.103.24 Mn mainly due to the expansion of business operations. The Company's advertising and business promotional expenses also grew by 23.09% primarily due to the increased advertising and promotional initiatives undertaken during the year under review.

### Composition of operating expenses - 2017



### Composition of operating expenses - 2016



# Financial Performance Review

## Cost to Income Ratio

Vallibel Finance's continued focus on improving efficiency of business operations through the application of process efficiencies, cost control measures and efforts to improve quality of loan portfolio has resulted in maximising benefits to our stakeholders over the years while strengthening the financial performance and position of the Company.

The Company's cost to income ratio was 46.30% as at the financial year end, compared to 48.58% recorded as at the end of the previous financial year. The continuous improvement in the Company's cost to income ratio endorses Vallibel Finance's focus on the improving efficiency of business operations and the implementation of cost control measures aimed at optimising business profits.

## Loan Loss Provision and Credit Quality

As the quality of the Company's loan portfolio continued to improve during the year under review, impairment charges on loans and advances decreased by 52.92% to Rs. 33.04 Mn from Rs. 70.18 Mn realised in the previous year. The Company was also able to maintain its non-performing loan ratio to well below the industry average, recoding 2.93% as at the end of the financial year.

The decline in the non-performing loan ratio by 22.07% during the year under review, compared to 3.76% in the previous year, is mainly a result of the recovery management strategies adopted by the Company. Resultantly, after providing for loan loss, the Net Performing Loans and Advances (NPA) ratio stood at 0.37% as at the end of the financial year. The Company's Credit and Recovery Divisions remain well focus on mitigating the

NPA ratio by following a two-pronged approach of prudent lending policies and aggressive recovery strategies.

## Improving Profitability

Vallibel Finance recorded impressive growth in profit before government taxes of 45.27% earning Rs. 1,324.47 Mn during the year under review compared to Rs. 911.74 Mn earned in the previous year. Increased business volumes, improved other income and improved operational efficiency were the main contributing factors for this increased profit.

## Net Profit

The overall net profit of the Company also increased by 41.48% during the year under review, and recorded Rs. 726.16 Mn after deducting total taxation amounting to Rs. 598.31 Mn, of which nearly 60% was paid as corporate income taxation amounting to Rs. 368.62 Mn and the balance of Rs. 229.69 Mn as Value Added Tax on Financial Services and Nation Building Tax.

## Profitability Ratios

Resultantly, the profitability indicators of the Company also showed growth. As at the financial year end, the Return on Average Assets - After Tax (ROA) increased to 2.72%, compared to 2.59% recorded in the previous year. The Company's Return on Average Equity (ROE) which is well above the industry average, was 32.37% as at the financial year end, compared to 29.81% recorded in the previous year.

Profitability (Rs. Mn)	2013	2014	2015	2016	2017
For the year ended 31st March					
Profit Before Income Tax & VAT on Financial Services & NBT	468	489	633	912	1,324
Profit Before Income Tax	429	443	559	784	1,095
Profit After Tax	295	304	373	513	726

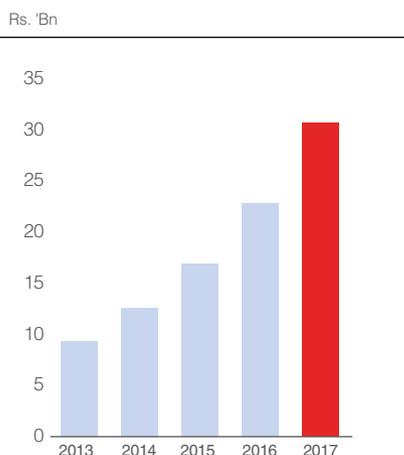
## Financial Position

The financial position of Vallibel Finance was vastly improved during the year under review, particularly with total assets increasing to above Rs. 30 Bn and the overall expansion plans of the Company progressing well. The forecast for the Company's future growth prospects is based on these accomplishments, and Vallibel Finance is poised to attain future sustainable growth.

## Growth in Total Assets

The growth in the Company total assets by 34.78% to reach Rs. 30.69 Bn as at 31st March 2017 review was earmarked as a landmark achievement for Vallibel Finance's journey of success. This considerable growth is primarily attributed to expansion in business volumes, and the Company's efficient management of the asset mix to optimise asset growth and stability while maintaining the quality of its lending portfolio, as opposed to pursuing high levels of growth.

### Total Assets



## Growth in Lending Assets

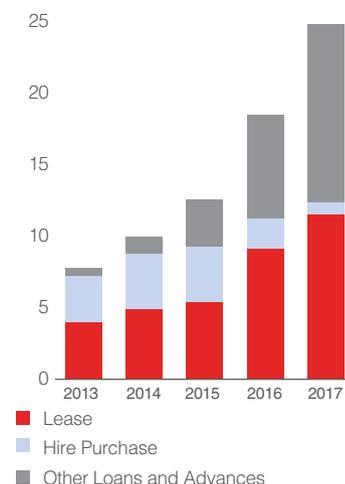
The total lease rental and hire purchase receivables amounted to Rs. 12.31 Bn as at 31st March 2017, only a marginal increase of 9.64% from Rs. 11.23 Bn as at 31st March 2016, mainly a result of the reduced focus on hire purchase activities and a slowdown in the growth of auto

leasing products due to the government's decision to curb the importation of vehicles in the latter part of 2015 and the increased rate of import duties on vehicles.

The loans and receivables to other customers' portfolio recorded a significant growth of 71.92% amounting to Rs. 12.31 Bn as at 31st March 2017, compared to Rs. 7.25 Bn as at 31st March 2016. This increase is mainly attributed to the Company's focus on diversifying its lending products portfolio resulting in the expansion in the mortgage loans and personal portfolio, as well as the gold loan portfolio.

## Portfolio Distribution for Last Five Years

Rs. 'Bn



# Financial Performance Review

## Liquidity Position

### Liquid Assets

The liquid assets of the Company consisting of cash and short term funds, investment in government securities and treasury bills, and placement with commercial banks showed a slight increase recording Rs. 3.93 Bn as at 31st March 2017 compared to Rs. 3.08 Bn recorded as at 31st March 2016.

Resultantly, the Company's liquid assets to total deposits ratio stood at 20.85% as at 31st March 2017, reflecting the healthy liquidity position of the Company.

### Total Liabilities

The total liabilities for the Company comprising of the deposit base, bank overdraft facilities, bank term loan facilities, securitised borrowings, debentures and other liabilities increased to 34.98% amounting to Rs. 28.13 Bn as at 31st March 2017, compared to Rs. 20.84 Bn as at 31st March 2016.

A major portion of this funding comprised of public deposits; accounting for 64% of total liabilities during the year under review, compared to 71% in the previous year. This decrease is a result of the Company's focus on reducing its reliance on public deposits as a source of funding and instead obtaining long-term bank borrowings. This decision by the Company also reflects the trend experienced over the past two years by Licenced Finance Companies (LFCs) slowly shifting from retail deposits to bank borrowings in consideration of the low interest rate and the flexibility offered.

As a result, the Company's exposure to bank borrowings increased during the year under review, accounting for 27% of total liabilities as opposed to 17% in the previous year. Bank borrowings from bank overdrafts, bank term loan facilities, and securitised borrowings amounted to Rs. 7.53 Bn as at 31st March 2017, an increase of 117.16% compared to Rs. 3.47 Bn as at 31st March 2016.

## Deposit Base, Bank Overdraft and Other Borrowings

Rs. 'Bn

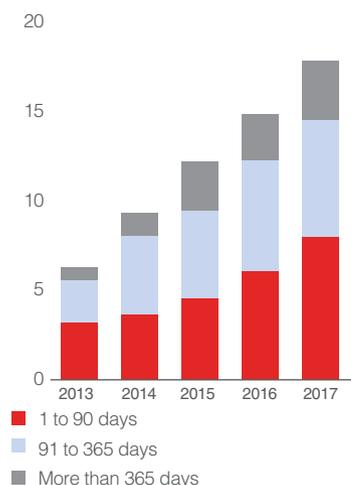


### Deposit Base

During the year under review, the Company experienced a growth in deposits of 20.67%. This is evidence of Vallibel Finance's standing among our customers, and the trust and public confidence that the Company enjoys. Resultantly, the deposits due to customers reached Rs. 17.86 Bn as at 31st March 2017, compared to Rs. 14.80 Bn as at 31st March 2016. Of the total deposit base, fixed deposits accounted for 96% while certificate of deposits contributed only a modest 3%. The saving base relating to the Microfinance product accounted for only 0.08% of the total deposits base as at 31st March 2017, mainly as the product category was only introduced in the year under review with the Microfinance product.

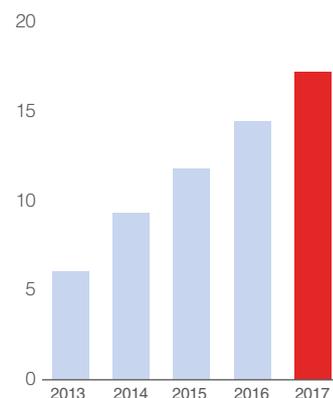
### Analysis of Deposits by Maturity Date

Rs. 'Bn



### Fixed Deposits

Rs. 'Bn



Of the total deposit base, 81% has a maturity of less than one year, while the remaining 19% has a maturity beyond this. The Company continues to focus on obtaining medium and long term funding in order to minimise maturity mismatches in interest bearing assets and liabilities by providing competitive rates, improving customer service and overall process efficiency of operations.

The Company's fixed deposits amounted to Rs. 17.23 Bn as at 31st March 2017, compared to Rs. 14.44 Bn as at 31st March 2016, a year-on-year increase of 19.30%. The value of certificate of deposits as at 31st March 2017 was Rs. 616.01 Mn, an increase of 71.42% compared to Rs. 359.35 Mn as at 31st March 2016.

### Shareholder Wealth Creation

#### Shareholders' Funds

The Company's main source of capital continued to be retained earnings which was Rs. 1.74 Bn as at 31st March 2017, an increase of 38.30% compared to Rs. 1.26 Bn as at 31st March 2016. The total shareholders' funds increased by 32.59% to Rs. 2.56 Bn as at 31st March 2017, compared to Rs. 1.93 Bn as at 31st March 2016. Return on Average Shareholders' Funds for as at 31st March 2017 was 32.37% compared to 29.81% as at 31st March 2016.

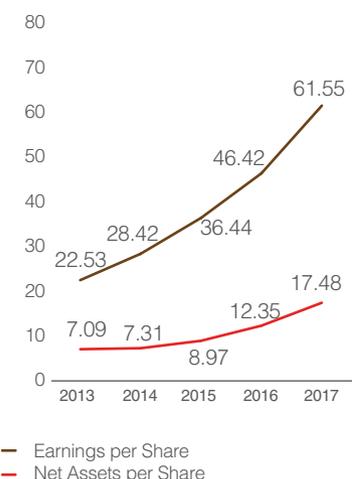
# Financial Performance Review

## Key Indicators per Ordinary Share

As at 31st March	2017	2016	Change (%)
Number of Shares (Mn)	41.55	41.55	-
Basic Earnings Per Share (Rs.)	17.48	12.35	41.53
Market Price per Share (Rs.)	58.50	53.70	8.94
PE ratio (Times)	3.35	4.35	(22.98)
Net Assets Per Share (Rs.)	61.55	46.42	32.59
Price to Book Value (Times)	0.95	1.16	(18.10)

### Growth in Earnings per Share and Net Assets per Share

%



March 2016 were 10.58% and 15.86% respectively. The reduction of total risk weighted capital ratio compared to the previous year was due to the reduction in the eligibility amount of unsecured subordinated debts.

Vallibel Finance's present core capital and total capital amount to Rs. 2.56 Bn and Rs. 3.36 Bn respectively which comfortably exceeds the regulatory requirements set by Central Bank of Sri Lanka. Detailed breakdown of capital adequacy ratio computation is given in the notes to the Financial Statements.

Vallibel Finance has in the last 10 years grown leaps and bounds, not simply realising its financial goals but far exceeding and outperforming even the management's expectations. The foundation build on strong fundamentals of transparency, ethical business values, and good governance has assisted in the Company's achievements. Building on these strengths, the Company shall embrace challenge and opportunity alike as we strive to do even better in the future.

## Capital Adequacy

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 subordinated debts to meet any unexpected losses.

The Company's Tier I capital ratio was 10.45% while the total risk weighted capital ratio was 13.72% as at 31st March 2017, exceeding the minimum regulatory limits of 5% and 10% respectively. The Company's total risk weighted capital ratio and core capital ratio as at 31st

# Caring for Our Society



Caring for the society is truly embedded in Vallibel Finance's business operations... our portfolio of products focuses on low and middle income earners, SMEs and micro-credit programmes, which are delivered to the masses residing in the widespread cities, towns, and villages of Sri Lanka.

Over the years Vallibel Finance has directly and indirectly supported and benefited thousands of Sri Lankan communities and economies within which we conduct business operations. As an essential element of our business model, the Company's Corporate Social Responsibility (CSR) mindset ensures that we consider the impact to society when conducting business operations, while taking steps to minimise any negative impacts. We encourage our employees to consider wider societal implication when dealing with customers and using scarce resources.

Over the years, with a view to giving back to a society which has always been supportive, the Company has sponsored and supported projects directed towards enhancing livelihoods, lifestyles, education and well-being of the Sri Lankan people. We also endeavour to pitch in whenever a national need arises for assistance in the instances of natural and unforeseen disasters.

Some CSR projects Vallibel Finance spearheaded in the year under review are highlighted herewith.



## Assistance Provided Towards Flood Relief Efforts

In May 2016, Sri Lanka was hit by a severe storm causing widespread flooding and landslides in most areas of the country. Masses were affected by this disaster with many homes being destroyed. As a conscientious citizen of Sri Lanka, Vallibel Finance together with our employees decided to cancel the 'Annual Vesak Dansala' and redirect the funds towards helping the flood victims. The Company distribute dry rations, cooked foods and medicine to the affected people in the Batawala area and in the Gampaha District on 21st May 2016. Our employees too made voluntary contributions to support this humanitarian cause by donating cash or food items, dry rations, and medicines.

## Annual Blood Donation Campaign

For the fourth consecutive year, Vallibel Finance together with our employees held the annual blood donation campaign on 06th August 2016 at the Company's Head



Office premises in collaboration with the National Blood Transfusion Service of Colombo. This year's theme was "Give Blood Save Life", and the campaign was a great success with 95 employees donating blood which was a 18% increase in employee participation compared to the previous year.

### **Donation to the Mediation Board in Chilaw**

The Chilaw Branch of Vallibel Finance conducted a special programme on 8th January 2017 to donate chairs to the Mediation Board of Chilaw as an endeavour to upgrade the seating facilities for the convenience of patrons.



### **Sponsorships for Community Interest Projects**

In the year under review Vallibel Finance sponsored some special projects that encouraged student skills and leadership development, encouraged sporting activities, fostered artists in Sri Lanka and assisted the underprivileged in the country.

### **Sri Lanka Model United Nations 2016**

Vallibel Finance was the Platinum Sponsor of the 9th Conference Session of the Sri Lanka Model United Nations which is Asia's best student-run simulation of the United Nations, registered under the Education Outreach Program of the United Nations. This Conference in its 9th session was held from 9th to 11th September 2016 at the Bandaranaike Memorial International Conference Hall (BMICH) in Colombo.



### **Synchronised Swimming Event of Visakha Vidyalaya**

The Company sponsored the synchronised swimming concert performed by the Visakha Vidyalaya Synchronised Swimming Team which was held in support of the fund raising programme of the Interact Clubs of Visakha Vidyalaya. The event was held on 27th, 28th and 29th May 2016 at the Swimming Complex premises of Visakha Vidyalaya, Colombo.



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### **‘Sirasa Super Star’**

In support of the entertainment industry and to encourage talented singers to follow their dreams, Vallibel Finance was the official finance partner of seventh season of the Sirasa Super Star which took place from October 2015 to July 2016 at the Sirasa Stein Studios. The grand final was held on 9th July 2016.



### **Music Event of Annesley Malewana**

The Company also sponsored a musical event of Mr. Annesley Malewana, a popular singing sensation, who celebrated his Golden Jubilee in the Sri Lankan music scene with a grand musical evening held at the BMICH on 6th August 2016.

### **Children’s Day Programme**

Over the years, Vallibel Finance has focused on helping less privileged children in the country by supporting worthy causes aimed at enhancing their educational needs, participating in events that promote social and cultural integrations, and generally working towards enabling these children to grow into prosperous adults. Consequently, during the year under review Vallibel Finance was the sponsor of a ‘World Children’s Day’ programme organised at the Kingsbury Hotel on 01st October 2016 to commemorate World Children’s Day.



### **Looking to the Future**

CSR will continue to remain important to Vallibel Finance as we grow and prosper as a strong and insightful business enterprise. As the Company matures, so will our CSR strategies and implementation programmes. In the coming year, we will progress in our endeavours to serve a more diverse and wider society by extending our branch network and consequently our presence across the country. We will strive towards becoming unrivalled in our social responsibility agenda aligned to the Company’s acknowledged status as a strong and growth oriented financial institution.

# Corporate Governance

Corporate Governance is popularly understood as the system by which Companies are directed and controlled. The Board of Directors is responsible for the governance of the Company and has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all the Company's dealings and making the best effort in achieving performance and quality profits. We have continuously refined our structure and systems to ensure governance on the lines as defined, aware at all time that we are accountable to our stakeholders and the general public.

This statement describes the application of the Corporate Governance practices within the Company during the year under review.

## Board of Directors

The Board is the highest body of Vallibel Finance PLC that carries the responsibilities of directing the Company. The responsibilities of the Board includes 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.

## Composition and Independence

The Board comprises seven (07) members, five (05) of whom including the Chairman are Non Executive Directors with a balance of skills and experience which is appropriate for the business carried out by the Company.

The names of the Directors who served during the year under review are disclosed in the Annual Report of the Board of Directors on the Affairs of the Company on pages 102.

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. K V P R De Silva, Mr. R M Karunaratne and Mr. A Dadigama 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.

## 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. K V P R De Silva serves as the 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 the Association also require Directors appointed by the Board 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 any other matter 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 2017, twelve (12) meetings of the Board were held. The attendance at the meetings was:

Name of Director	Executive/ Non-Executive/ Independent Non- Executive	Attendance
Mr. K V P R De Silva	Independent Non- Executive	11/12
Mr. Dhammika Perera	Executive	10/12
Mr. S B Rangamuwa	Executive	12/12
Mr. R M Karunaratne	Independent Non- Executive	12/12

Name of Director	Executive/ Non-Executive/ Independent Non- Executive	Attendance
Mr. T Murakami	Non-Executive	07/12
Mr. K D A Perera	Non-Executive	10/12
Mr. A Dadigama	Independent Non- Executive	12/12
Mr. H Ota (Alternate Director – Mr. T Murakami)	Non-Executive	04/12

### Audit Committee

An Audit Committee functions as a Sub- Committee of the Board. The names of the Directors who serve on the said Committee are given on page 105.

The Report of the Audit Committee is given on page 108 and 109.

### Remuneration Committee

A Remuneration Committee functions as a Sub- Committee of the Board. The names of the Directors who serve on the said Committee are given on page 105.

### 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 Committee are given on page 105.

The Report of the Related Party Transactions Review Committee is given on page 110.

### 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. R M Karunaratne, and consisted of senior management personnel supervising broad risk categories.

### 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.

# Corporate Governance

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## **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 with Central Bank Regulations**

Both as a Licensed Finance Company and a Registered Finance Leasing establishment, the Company is governed by the Non-Bank Financial Institutions Directions & Rules issued by the Monetary Board of the Central Bank of Sri Lanka.

Accordingly the Company has to carryout and maintain business activities in compliance with the Directions issued by the Central Bank of Sri Lanka from time to time.

## **Accountability and Disclosure**

The members of the Board of Directors have reviewed in detail the Financial Statements in order 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

25th May 2017

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## 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 of 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>		
2. (1)	The Board of Directors shall strengthen the safety and soundness of the finance company by-	
	a) approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;	Complied with. Strategic objectives and values are incorporated in the Board approved strategic plan and these have been communicated to the staff.  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.

# Corporate Governance

Directions		Extent of Compliance
b)	<p>approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;</p>	<p>Complied with. 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)	<p>identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;</p>	<p>Complied with. 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 to Risk Management report on page 93 to 101 and Integrated Risk Management Committee report on page 106 for further details.</p>
d)	<p>approving a policy of communication with all stakeholders, including depositors, creditors, share- holders and borrowers;</p>	<p>Complied with. Board approved Communication Policy covering all stakeholders is in place.</p>

Directions		Extent of Compliance
e)	reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	<p>Complied with.</p> <p>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)	identifying and designating key management personnel, who are in a position to: <ul style="list-style-type: none"> <li>(i) significantly influence policy;</li> <li>(ii) direct activities; and</li> <li>(iii) exercise control over business activities, operations and risk management;</li> </ul>	<p>Complied with.</p> <p>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)	defining the areas of authority and key responsibilities for the Board and for the key management personnel;	<p>Complied with.</p> <p>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)	ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy;	<p>Complied with.</p> <p>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>

# Corporate Governance

Directions		Extent of Compliance
i)	<p>periodically assessing the effectiveness of its governance practices, including:</p> <ul style="list-style-type: none"> <li>(i) the selection, nomination and election of directors and appointment of key management personnel;</li> <li>(ii) the management of conflicts of interests; and</li> <li>(iii) the determination of weaknesses and implementation of changes where necessary;</li> </ul>	<p>Complied with.</p> <p>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)	ensuring that the finance company has an appropriate succession plan for key management personnel;	<p>Complied with.</p> <p>A succession plan for key management personnel is in place.</p>
K)	meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	<p>Complied with.</p> <p>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.</p>
i)	understanding the regulatory environment;	<p>Complied with.</p> <p>The Board is updated of the changes in the regulatory environment and new directions, circulars etc. issued are made available to the Directors.</p>
m)	exercising due diligence in the hiring and oversight of external auditors.	<p>Complied with.</p> <p>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.</p>

Directions		Extent of Compliance
2 (2)	The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer.	<p>Complied with.</p> <p>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.</p> <p>Functions and responsibilities of the chairman and the MD/CEO have been defined and approved by the Board.</p>
2 (3)	There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.	<p>Complied with.</p> <p>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.</p>
2 (4)	A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	<p>Complied with.</p> <p>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.</p>
2 (5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	<p>Complied with.</p> <p>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.</p>
2 (6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	No such situations have arisen.

# Corporate Governance

Directions		Extent of Compliance
2 (7)	The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied with. This report serves the said requirement.
2 (8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied with. The Company has adopted a scheme of self assessment to be undertaken by each Director annually and filed with the Company Secretary.
<b>3. Meetings of the Board</b>		
3 (1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied with. Board meetings are held at monthly intervals, mainly to review the performance of the Company and other relevant matters referred to the Board. Twelve Board meetings were held during the year 2016/2017.  Circulation of resolutions/papers to obtain Board's consent is minimized and resorted only when absolutely necessary.
3 (2)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied with. 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.  Agenda, draft minutes and Board papers are sent in advance, enabling Directors to submit their views, proposals and observations at the respective Board Meeting.
3 (3)	A notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Complied with. 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.
3 (4)	A director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director.  Provided that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	Such situation has not arisen during the year 2016/2017.

Directions		Extent of Compliance
3 (5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with. Secretary to the Board is PW Corporate Secretarial (Pvt) Ltd, a Company registered with the Registrar General of Companies as a qualified secretary under Registration No SEC/(2)2008/216.  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.
3 (6)	If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.	Complied with. The Company Secretary has been delegated with the responsibility of preparing the agenda for the Board meeting.
3 (7)	All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied with. 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.
3 (8)	The company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied with. 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.

# Corporate Governance

Directions		Extent of Compliance
3 (9)	<p>Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties.</p> <p>The minutes of a Board meeting shall clearly contain or refer to the following:</p> <ol style="list-style-type: none"> <li>a summary of data and information used by the Board in its deliberations;</li> <li>the matters considered by the Board;</li> <li>fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;</li> <li>the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations;</li> <li>the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted;</li> <li>decisions and Board resolutions.</li> </ol>	<p>Complied with.</p> <p>Detailed minutes are maintained by the Company Secretary covering these given criteria.</p>
<b>4. Composition of the Board</b>		
4 (1)	<p>The number of directors on the Board shall not be less than 5 and not more than 13.</p>	<p>Complied with.</p> <p>The Board comprised of Seven Directors as 31st March 2017.</p>
4 (2)	<p>The total period of service of a director other than a director who holds the position of chief executive officer or executive directors shall not exceed nine years.</p>	<p>Complied with.</p> <p>The total period of service of all Non Executive Directors is less than 9 years as at date.</p>
4 (3)	<p>An employee may be appointed, elected or nominated as a director (as an "executive director") provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.</p>	<p>Complied with.</p> <p>The Board consists of seven members of whom two are Executive Directors. Accordingly, the number of Executive Directors does not exceed one-half of Directors of the Board.</p>

Directions		Extent of Compliance
4 (4)	The number of independent non-executive directors of the Board shall be at least one fourth of the total numbers of directors.	<p>Complied with.</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 the declarations made by the Independent Non-Executive Directors under the Listing Rules, the Board determined that Messrs K V P R De Silva, R M Karunaratne and A Dadigama who held office during the period under review, 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.</p>
4 (5)	In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Not applicable as no alternate directors have been appointed to represent independent Non-Executive Directors as at the end of the year under review.
4 (6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	<p>Complied with.</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 in page 14 to 17.</p>
4 (7)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one half of the number of directors that constitute the quorum at such meeting are non-executive directors.	<p>Complied with.</p> <p>At all Board meetings held during the year 2016/2017, more than one half of the numbers of directors that constitute the quorum were Non Executive Directors.</p>
4 (8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	<p>Complied with.</p> <p>Please refer page 52 of the Corporate Governance Report.</p>

# Corporate Governance

Directions		Extent of Compliance
4 (9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with. All new appointments to the Board are subject to regulatory provisions.
4 (10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied with. All Directors appointed to the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment.
4 (11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	There were no resignations or removals of Directors during the year 2016/2017.
<b>5. Criteria to assess the fitness and propriety of directors</b>		
5 (1)	The age of a person who serves as Director shall not exceed 70 years.	Complied with. All Directors are below the age of 70 years as at 31st March 2017.
5 (2)	A director of a finance company shall not hold office as a director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company.	Complied with. No Director holds directorships of more than 20 companies/ societies/bodies/institutions.

Directions		Extent of Compliance
<b>6. Delegation of Functions</b>		
6 (1)	The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with. 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)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied with. 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.
<b>7. The Chairman and the Chief Executive Officer</b>		
7 (1)	The roles of chairman and chief executive officer shall be separated and shall not be performed by the one and the same person.	Complied with. The positions of the Chairman and the Chief Executive Officer are separate and performed by two different individuals.
7 (2)	The chairman shall be a non-executive director.  In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied with. The Chairman is an Independent Non-Executive Director.

# Corporate Governance

Directions		Extent of Compliance
7 (3)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the Board.	<p>Complied with.</p> <p>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.</p> <p>Directors Messrs K D D Perera and K D A Perera are of the same family.</p> <p>No relationships prevail among the other members of the Board, other than for Directors who are common Directors of certain Companies.</p>
7 (4)	<p>The chairman shall:</p> <p>(a) provide leadership to the Board;</p> <p>(b) ensure that the Board works effectively and discharges its responsibilities; and</p> <p>(c) ensure that all key issues are discussed by the Board in a timely manner.</p>	<p>Complied with.</p> <p>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.</p>
7 (5)	The chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The chairman may delegate the function of preparing the agenda to the company secretary.	<p>Complied with.</p> <p>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.</p>
7 (6)	The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	<p>Complied with.</p> <p>Board papers covering adequate information of matters to be taken up for discussions are circulated in advance prior to the meeting.</p>
7 (7)	The chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	<p>Complied with.</p> <p>All Directors are encouraged to actively participate in Board's affairs.</p>
7 (8)	The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	<p>Complied with.</p> <p>There is a constructive relationship among all Directors and they work together in the best interest of the Company.</p>

Directions		Extent of Compliance
7 (9)	The chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with 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)	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with. Effective communication with shareholders is maintained at the Annual General Meeting providing opportunity for them to express their views and recommendations.
7 (11)	The chief executive officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.	Complied with. 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.
<b>8. Board appointed Committees</b>		
8 (1)	<p>Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof.</p> <p>Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee.</p> <p>The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.</p>	<p>Complied with.</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 106 to 110 of this Annual Report.</p>

# Corporate Governance

Directions		Extent of Compliance
8 (2)	Audit Committee	
a)	The chairman of the committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.	<p>Complied with.</p> <p>The Chairman of Audit Committee is an Independent Non Executive Director and possesses qualifications and related experience.</p> <p>Qualifications and experience are disclosed in page 17 of the Annual Report.</p>
b)	The Board members appointed to the committee shall be non-executive directors.	<p>Complied with.</p> <p>All the members of the audit committee are Non-Executive Directors.</p>
c)	<p>The committee shall make recommendations on matters in connection with:</p> <p>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p>	<p>Complied with.</p> <p>In accordance with the Terms of Reference, the Committee has made the following recommendations:</p> <ol style="list-style-type: none"> <li>1. The appointment of Messrs KPMG, Chartered Accountants as the External Auditor for audit services to be provided in compliance with the relevant statutes.</li> <li>2. The implementation of CBSL Guidelines applicable to the Auditors.</li> <li>3. Application of relevant Accounting Standards</li> <li>4. The service period, audit fee and any resignation or dismissal of the auditor</li> </ol> <p>Complied with the requirement that the engagement of the audit partner does not exceed five years.</p>
d)	The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	<p>Complied with.</p> <p>The Committee reviews and monitors the External Auditors' independence, objectivity and the effectiveness of the audit processes.</p> <p>The Audit Committee also reviews the nature and scope of the external audit taking in to account of the regulations &amp; guidelines.</p>

Directions		Extent of Compliance
e)	The committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity.	Complied with. 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)	The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including: <ul style="list-style-type: none"> <li>(i) An assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;</li> <li>(ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and</li> <li>(iii) the co-ordination between auditors where more than one auditor is involved.</li> </ul>	Complied with. The Committee has discussed and finalized the nature and the scope of audit, with the External Auditors before the audit commences.

# Corporate Governance

Directions		Extent of Compliance
g)	<p>The committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.</p> <p>In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on:</p> <ul style="list-style-type: none"> <li>(i) major judgmental areas;</li> <li>(ii) any changes in accounting policies and practices;</li> <li>(iii) significant adjustments arising from the audit;</li> <li>(iv) the going concern assumption; and</li> <li>(v) the compliance with relevant accounting standards and other legal requirements.</li> </ul>	<p>Complied with.</p> <p>Meetings of the Audit Committee are convened for this purpose.</p> <p>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.</p>
h)	<p>The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	<p>Complied with.</p> <p>During the year under review the Committee has met the External Auditors on two occasions to discuss issues, problems and reservations relating to audit.</p>
i)	<p>The committee shall review the external auditor's management letter and the management's response thereto.</p>	<p>Complied with.</p> <p>The Committee has reviewed by the external auditor's Management Letter and the management response thereto. Follow up actions were taken accordingly.</p>

Directions		Extent of Compliance
j)	<p>The committee shall take the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> <li>(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</li> <li>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> <li>(v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</li> <li>(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;</li> </ul>	<p>Complied with.</p> <p>The Company's Internal Audit function has been outsourced and carried out by Ernst &amp; Young Advisory Service (Pvt) Limited.</p> <p>The Internal Audit plan is reviewed and approved by the Audit Committee at the beginning of each financial year.</p> <p>Audit reports are tabled at the Audit Committee meeting by the Internal Auditors and the relevant items are discussed in detail with suitable actions agreed upon. Where required, the Management is invited to attend the meeting to provide clarifications.</p> <p>Performance of Ernst &amp; Young as Internal Auditors is reviewed by the Audit Committee.</p> <p>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.</p>
k)	<p>The committee shall consider the major findings of internal investigations and management's response thereto;</p>	<p>Complied with.</p> <p>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.</p>

# Corporate Governance

Directions		Extent of Compliance
l)	The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the chief executive officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the external auditors without the executive directors being present.	Complied with. The Chief Executive Officer, Chief Financial Officer and representatives of the Internal Auditors 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)	The committee shall have: <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	Complied with. The terms of reference of the Board Audit Committee include scope and responsibilities of the Committee.  The Audit Committee is authorized to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Committee also has full access to information in order to investigate into matters relating to any matter within its terms of reference.
n)	The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with. The Audit Committee meets regularly and members of the Committee are provided with due notice of issues to be discussed. Minutes of the meetings maintained by the Company Secretary.
o)	The Board shall, in the Annual Report, disclose in an informative way, <ul style="list-style-type: none"> <li>(i) details of the activities of the audit committee;</li> <li>(ii) the number of audit committee meetings held in the year; and</li> <li>(iii) details of attendance of each individual member at such meetings.</li> </ul>	Complied with. Please refer Audit Committee Report on page 108 and 109.
P)	The secretary to the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied with. The Company Secretary functions as the Secretary to the Committee and records and maintains detailed minutes of the Committee.

Directions		Extent of Compliance	
	q)	<p>The committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.</p>	<p>Complied with.</p> <p>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.</p> <p>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.</p>
8 (3)	Integrated Risk Management Committee		
	The following shall apply in relation to the Integrated Risk Management Committee (IRMC):		
	a)	<p>The committee shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks, The committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.</p>	<p>Complied with.</p> <p>Committee consists of two Independent Non - Executive Directors, Chief Executive Officer, Deputy General Manager - Credit, Assistant General Manager – Finance &amp; Administration and Assistant General Manager - Asset Management who supervises broad risk categories as detailed in this Direction.</p> <p>Any other key management personnel and staff are invited as and when the Committee needs their presence.</p>
	b)	<p>The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.</p>	<p>Complied with.</p> <p>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.</p> <p>Please refer Risk Management Report on page 93 to 101 for further details.</p>

# Corporate Governance

Directions		Extent of Compliance
c)	The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	Complied with. Minutes of management level committees are submitted to the Committee to review the adequacy and effectiveness of the Committee.
d)	The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied with. 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)	The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with The Board Integrated Risk Management Committee meetings are held at quarterly intervals.
f)	The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied with 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)	The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with The minutes of the meetings are submitted to the next immediate Board meeting together with the recommendation and risk reports.
h)	The committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Complied with 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.

Directions		Extent of Compliance
<b>9. Related party transactions</b>		
9 (2)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <ul style="list-style-type: none"> <li>a) A subsidiary of the finance company;</li> <li>b) Any associate company of the finance company;</li> <li>c) A director of the finance company;</li> <li>d) A key management personnel of the finance company;</li> <li>e) A relative of a director or a key management personnel of the finance company ;</li> <li>f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;</li> <li>g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.</li> </ul>	<p>Complied with.</p> <p>The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties.</p> <p>The Related Party Transaction 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).</p> <p>The Report of the Related Party Transactions Review Committee is given on Page 110.</p>
9 (3)	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> <li>a) Granting accommodation,</li> <li>b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,</li> <li>c) providing financial or non-financial services to the finance company or obtaining those services from the finance company,</li> <li>d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</li> </ul>	<p>Complied with.</p> <p>Information in this regard, is disclosed in Note 47 on “Related Party Disclosures” in the Financial Statements.</p>

# Corporate Governance

Directions		Extent of Compliance
9 (4)	The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party “more favourable treatment” than that is accorded to other similar constituents of the finance company.	Complied with. The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties in the manner mentioned herein.
<b>10. Disclosure</b>		
10 (1)	The Board shall ensure that: <ul style="list-style-type: none"> <li>(a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that</li> <li>(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</li> </ul>	Complied with. 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 websites of CSE.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
	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.	Complied with. Relevant disclosures are included in page 114 of the annual report under “Statement of Directors Responsibilities”.
	b) A report by the Board on the finance company’s internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. “Directors’ Statement on Internal Control System Over Financial Reporting” is given on page 107.

Directions		Extent of Compliance
c)	The external auditor's certification on the effectiveness of the internal control mechanism referred to in sub-paragraph (2) (b) above, in respect of any statements prepared or published.	Complied with. 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.	Complied with. Please refer pages 14 to 17 for details of Directors, pages 175 to 178 on "Related Party Disclosures" for transactions with the Company.
e)	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published.	Complied with. This has been disclosed in note 47 to the Financial Statements.
f)	Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied with. Relevant disclosures are included in the Annual Report page 175 to 178 under "Related Party Disclosures".
g)	The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied with. Relevant disclosures are included in the Annual Report page 175 to 178 under "Related Party Disclosures".
h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied with. This has been disclosed under the "Corporate Governance Report" and "Annual Report of the Board of Directors on the affairs of the Company".

# Corporate Governance

Directions		Extent of Compliance
i)	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Not applicable 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)	The external auditor's certification of the compliance with the Corporate Governance Direction in the annual corporate governance reports published.	Complied with. 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.

## 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);

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	Complied with. As at the end of the year under review, the Board comprised of two Executive and five Non-Executive Directors who are eminent professionals with extensive experience in the different business sectors, including leaderships in quoted companies.  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.
A.1.1	Board meetings	Complied with. Regular Board meetings are held at monthly intervals and the Board met 12 times during the year under review. See 'Board Meetings' on page 52 and 53.

# Corporate Governance

Code Ref.	Principle	Extent of Compliance
A.1.2	<p>Board responsibilities 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>Complied with.</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 55 and 56 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 58 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 106 and 109 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 70 and 76 of Section One.</p> <p>The Board is committed to fulfilling such other functions that are required according to the business environment.</p>

<b>Code Ref.</b>	<b>Principle</b>	<b>Extent of Compliance</b>
A.1.3	Compliance with laws and seeking independent professional advice	<p>Complied with.</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>Complied with.</p> <p>Please refer response to requirement 3 (7) to (8) of the Section One on page 61 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>
A.1.5	Independent judgment of Directors	<p>Complied with.</p> <p>Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.</p>
A.1.6	Dedication of adequate time and effort by the Board	<p>Complied with.</p> <p>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.</p>
A.1.7	Training for Directors	<p>Complied with.</p> <p>A newly appointed Director is given appropriate induction with regard to the affairs of the Company and laws and regulations applicable to the Company.</p>
<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	<p>Complied with.</p> <p>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.</p>
A.2.1	Justification to combine the posts of Chairman and Chief Executive Officer	Not applicable.

# Corporate Governance

Code Ref.	Principle	Extent of Compliance
<b>A.3 Chairman's Role</b>		
A.3.1	Role of the Chairman	<p>Complied with.</p> <p>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.</p> <p>Please refer 7 (4) to (10) on page 66 and 67 of Section One for further details.</p>
<b>A.4 Financial Acumen</b>		
A.4	Financial acumen and knowledge	<p>Complied with.</p> <p>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.</p> <p>Please refer pages 14 to 17 for the Profiles of the Directors.</p>
<b>A.5 Board Balance</b>		
A.5.1	Have a balance of Executive & Non-Executive Directors	<p>Complied with.</p> <p>Board maintains the required balance of Executive and Non-Executive Directors on the Board. Board consisted of two Executive Directors and five Non-Executive Directors of whom three are independent as at 31st March 2017. As the majority of the Board comprises Non Executive Directors, their opinions and views carry significant weight in the Board's decisions.</p>
A.5.2 & A.5.3	Independence of Non Executive Directors	<p>Complied with.</p> <p>Three 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.</p>
A.5.4 & A.5.5	Board to determine annually as to the Independence or Non-Independence of Non-Executive Directors	<p>Complied with.</p> <p>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.</p>

Code Ref.	Principle	Extent of Compliance
A.5.6	Appointment of an Alternate Director	Complied with. 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	Appointment of Senior Independent Non-Executive Director	Appointment of Senior Independent Non-Executive Director is not required as the Chairman is an Independent Non-Executive Director.
A.5.8	Meetings only with Non-Executive Directors	Complied with. Chairman meets with the Non-Executive Directors without the presence of Executive Directors, whenever necessary.
A.5.9	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved	Complied with. 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	Complied with. 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	Complied with. Please refer response to requirement 3 (3) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 on page 60 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	Complied with. 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.	Complied with. 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 re-election by shareholders at first opportunity after appointment and should be submitted for re-election regularly or at least once in every three years.	<p>Complied with.</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.	Refer 2 (8) on page 60 of Section One.
<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>Complied with.</p> <p>Information pertaining to Directors is disclosed in the following sections of this Annual Report.</p> <ol style="list-style-type: none"> <li>1. Name, qualifications, expertise, material business interests and brief profiles on pages 14 to 17.</li> <li>2. Related party transactions are given in Note No 47 to the Financial Statements on pages 175 to 178.</li> <li>3. Membership of Sub Committees and attendance at Board Meetings on pages 105 and 52 to 53.</li> </ol>
<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>Complied with.</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>

Code Ref.	Principle	Extent of Compliance
<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	Complied with. 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.
B.1.2	Remuneration Committee to comprise exclusively of Non-Executive Directors	Complied with. All members of the Committee are Non-Executive Directors two of whom are independent as well. The committee members are; <ul style="list-style-type: none"> <li>1. Mr. K V P R De Silva - Independent Non-Executive Director</li> <li>2. Mr. R M Karunaratne - Independent Non-Executive Director</li> <li>3. Mr. K D A Perera - Non-Executive Director</li> </ul>
B.1.3	Membership to be disclosed in the Annual Report	Complied with. Disclosed in the page 105 of the 'Annual Report of the Board of Directors on the Affairs of the Company'.
B.1.4	Remuneration of Non- Executive Directors	Complied with. 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	Complied with. 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>B.2 Level and make up of Remuneration</b>		
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.		

# Corporate Governance

Code Ref.	Principle	Extent of Compliance
B.2.1 - B.2.9	<p>Level and make up of remuneration of Executive Directors including performance element in pay structure</p> <p>Remuneration packages in line with industry practices</p> <p>Executive share option</p> <p>Non Executive Directors remuneration</p>	<p>Complied with.</p> <p>The Remuneration Committee recommends the remuneration payable to the Managing Director. The Board makes the final determination after considering such recommendations.</p> <p>The remuneration packages offered by the Company are linked to the corporate and individual performances and are aligned with the market/industry rates.</p> <p>No share options schemes have been offered to the Executive Directors.</p> <p>Non-Executive Directors of the Company are paid a fee in line with the market practices.</p>
<p><b>B.3 Disclosure of Remuneration</b></p> <p>Requirement for Annual Report to contain a Statement of Remuneration Policy and details of Board's remuneration as a whole.</p>		
B.3.1	<p>Composition of Remuneration Committee, Remuneration Policy and disclosure of aggregate remuneration paid to Executive and Non- Executive Directors</p>	<p>Complied with.</p> <p>Refer 'Annual Report of the Board of Directors on the Affairs of the Company' on pages 102 to 105 for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Company.</p> <p>The remuneration paid to the Board of Directors is disclosed in aggregate in note No 47 to the Financial Statements on page 175.</p>
<p><b>C. Relations with Shareholders</b></p>		
<p><b>C.1 Constructive use of Annual General Meeting (AGM) and Conduct of General Meetings</b></p> <p>The Board should use the Annual General Meetings to communicate with shareholders and encourage their active participation.</p>		
C.1.1	<p>Counting of proxy votes</p>	<p>Complied with.</p> <p>All proxy votes lodged, together with the votes of shareholders present at the AGM are considered for each resolution.</p>
C.1.2	<p>Separate resolutions for each substantially separate issue</p>	<p>Complied with.</p> <p>A separate resolution is proposed at the AGM for each substantially separate issue..</p>
C.1.3	<p>Heads of Board Sub-committees to be available to answer queries</p>	<p>Complied with.</p> <p>In the absence of the Chairman of the respective Committee, a co-member will attend to queries raised.</p>

Code Ref.	Principle	Extent of Compliance
C.1.4	Notice of Annual General Meeting to be sent to shareholders with other related papers as determined by statute, before the meeting.	Complied with. 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	Complied with. 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.	Complied with. 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.

# Corporate Governance

Code Ref.	Principle	Extent of Compliance
<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	<p>Complied with.</p> <p>The Company's position and prospects have been discussed in detail in the following sections of this Annual Report.</p> <ol style="list-style-type: none"> <li>1. Chairman's Statement on pages 8 to 9</li> <li>2. Managing Director's Message on pages 10 to 13</li> <li>3. Management Discussion and Analysis on pages 20 to 39</li> <li>4. Financial Performance Review on pages 40 to 48</li> </ol>
D.1.1	Present interim and other price sensitive public reports and mandated reports to regulators by statute	<p>Complied with.</p> <p>The Board's responsibility over financial reporting is stated in the 'Statement of Directors' Responsibilities' on page 103 and 114.</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>Complied with.</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 102 to 105.</p>
D.1.3	Statements by Directors and Auditors on Responsibility for Financial Reporting	<p>Complied with.</p> <p>The 'Statement of Directors' Responsibilities' is given on page 114 and 'Directors' Statement on internal control system over financial reporting' is given on page 107.</p> <p>See 'Independent Auditor's Report' on page 115 for the reporting responsibility of Auditors.</p>

Code Ref.	Principle	Extent of Compliance
D.1.4	Include a Management Discussion and Analysis	Complied with. Please refer 'Management Discussion and Analysis' on page 20 to 39 and 'Financial performance Review' on pages 40 to 48.
D.1.5	Board should report that the business is a going concern with all the supporting assumptions and qualifications as necessary.	Complied with. 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.
D.1.6	Remedial action at an Extra ordinary General Meeting if net assets fall below 50% of value of shareholders' funds	This situation has not arisen.
D.1.7	Disclosure of Related Party Transactions adequately and accurately	Complied with. Related Party Transactions as defined in Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Disclosures' is disclosed in note No 47 to the Financial Statements on page 175 to 178 .  Please refer responses to requirements of section 9 of the Finance Companies Corporate Governance Direction on page 75 and 76 for further details.
<b>D.2 Internal Control</b>		
D.2.	Maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets	Complied with. 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.  The overall risk management has been assigned to the Integrated Risk Management Committee of the Board.

# 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>Complied with.</p> <p>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>Complied with.</p> <p>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>
D.2.3	Audit Committee to carryout reviews of the process and effectiveness of risk management and internal controls and document to the Board	<p>Complied with.</p> <p>Described in response to D.2.1 above.</p>

Code Ref.	Principle	Extent of Compliance
<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	Complied with. All members of the Board Audit Committee, including the Chairman are Non-Executive Directors and two of the members are Independent Non-Executive Directors as well.
D.3.2	Duties of the Audit Committee	Complied with. The Audit Committee monitors and reviews the scope, results and effectiveness of the audit and the independence and objectivity of the External Auditors.  Please refer responses to requirements of section 8 (2) of the Finance Companies Corporate Governance Direction on page 68 to 73 for further details.
D.3.3	Terms of Reference of the Audit Committee	Complied with. The Audit Committee is guided by the Board approved Terms of Reference which specifies the authority and responsibility of the Committee.
D.3.4	Disclosures of the Audit Committee	Complied with. Please refer 'Audit Committee Report' on page 108 and 109 of this Annual Report.
<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	Moving towards compliance.  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	Complied with. This requirement is met through the presentation of this report.

# Corporate Governance

Code Ref.	Principle	Extent of Compliance
<b>Shareholders</b>		
<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.	Complied with. The Annual General Meeting is the forum utilized 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	Complied with. 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	Complied with. 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	Complied with. 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.	Moving towards compliance.  'Corporate Social Responsibility Report' is given on page 49 to 51 and it describes community –based development initiatives carried out by the Company to support and build the Community.

# Risk Management

Risk is an inherent element of doing business. Being a part of the Financial Services Industry essentially means the Company faces a higher level of risks which must be carefully analysed and understood, monitored and managed. Accordingly, Vallibel Finance has in place a robust and integrated risk governance framework that considers both financial and non-financial risks that are regularly measured, monitored and reviewed to ensure that the Company can remain sustainable while creating value to our stakeholders.

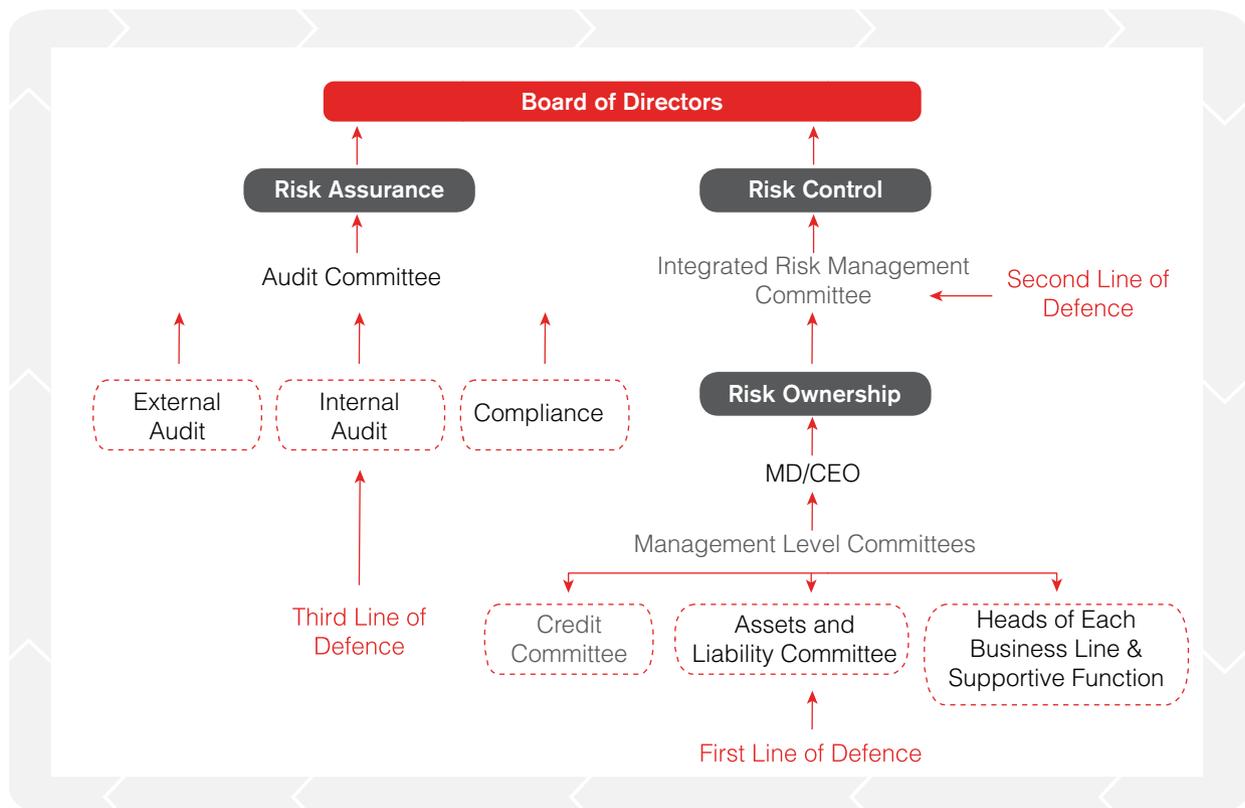
Today, as a leading Finance Company Effective Risk Management is fundamental to how we run our business operations. Resultantly, the Company continues to remain focussed on watchfully navigating the dynamic macroeconomic environment, enhancing and incorporating approaches to good risk governance and management practices while carefully monitoring risks to build a viable and sustainable business over time.

## Vallibel Finance Risk Governance Framework

A well entrenched governance framework is the basis for effective risk management and this has been maintained through delegation of authority from the Board, to the Audit Committee and Integrated Risk Management Committee and down the management hierarchy.

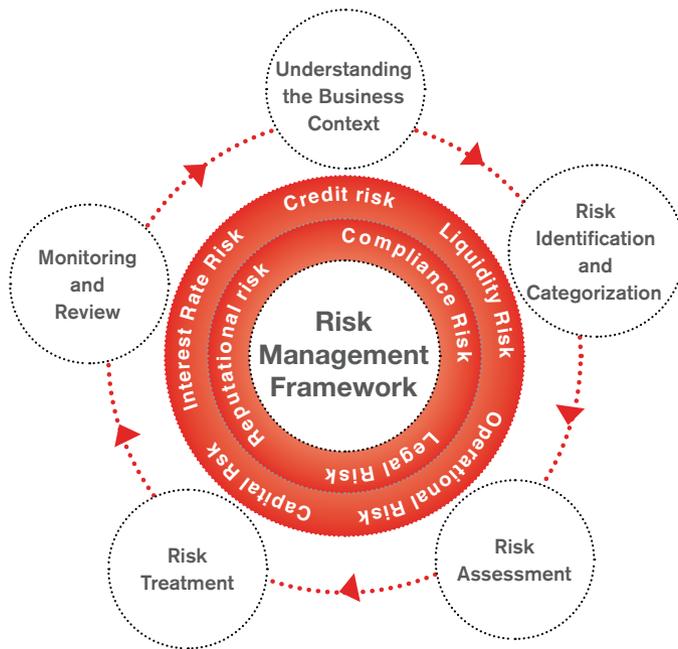
The Board of Directors has the overall responsibility for the risk management and the sub committees are responsible for the ongoing management and monitoring of risk exposure.

With the purpose of establishing a robust risk management system the Company have adopted the three lines of defense governance framework to promote clear accountability for risk taking, oversight and independent assurance within the Company.



# Risk Management

<b>Board and Management Committees</b>	
<b>Board Committees</b>	
<b>Audit Committee</b>	The Audit Committee assists the Board 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 and the performance of the Company's internal audit function. The Committee is responsible for monitoring and reviewing risk management policies and procedures and reviewing the adequacy of the risk management framework in relation to risks faced by the Company. The Audit Committee is assisted in these functions by Internal Audit.
<b>Integrated Risk Management Committee (IRMC)</b>	IRMC is responsible for developing and monitoring risk management policies and procedures in specified risk areas. The Committee is comprised of two Non Executive Directors, Chief Executive Officer and three representatives from the senior management who supervise major risk categories. The Committee 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.
<b>The Related Party Transactions Review Committee</b>	The main responsibilities of the Related Party Transactions Review Committee include developing and recommending policies and procedures to review related party transactions, reviewing proposed related party transactions in compliance with the provisions of the Code of Best Practice on Related Party Transactions issued by the Securities & Exchange Commission of Sri Lanka and other related rules and regulations, updating the Board of Directors on the related party transactions of the Company and advising the Board on making immediate market disclosures in compliance with the provisions of the Code and the related rules and regulations.
<b>Management Committees</b>	
<b>Assets &amp; Liability Management Committee (ALCO)</b>	It is the main management committee and assists the Board of Directors by assessing the adequacy and monitoring the implementation of the Company's asset & liability management policies and related procedures. ALCO is primarily responsible for the management of interest rate risk, market risk, liquidity risk, capital risk and any other risk which may be specified by the IRMC. ALCO is comprised of representatives from the management who supervise major risk categories and chaired by the Chief Executive Officer. All action taken by the Committee is reported to the Integrated Risk Management Committee.
<b>Credit Committee</b>	The Committee is responsible for formulating credit policies in consultation with business lines considering collateral requirements and credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements and establishing the authorization structure for the approval and renewal of credit facilities. The Committee also limits the concentrations of exposure to counterparties, geographies and industries (for loans and advances) by issuer, credit rating and market liquidity.



### Risk Management Process

A risk management framework has been established to ensure that risks are identified and managed according to a consistent approach across all business areas and all risk types and all decisions are in line with the risk appetite of the Company. The framework is also designed to ensure that policies and controls can be adapted to reflect adjustments to business strategy and risk appetite which is made in response to changing market conditions. This structured approach to identify and assess the impact of emerging risks, agree tolerances and develop mitigating strategies eventually supports the Company's aim of augmenting value for stakeholders.

### Managing Risk at Vallibel Finance

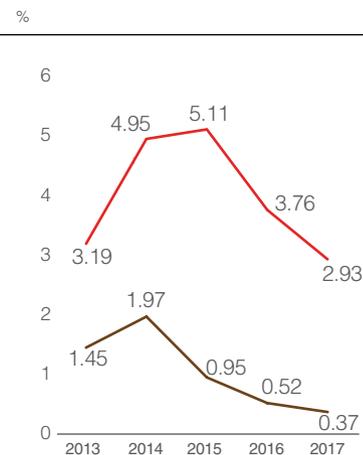
The most significant risks faced by the Company at present and approaches of managing them are detailed below.

#### 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, gold loan advances 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 or default risk and sector 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 loan and advances which account for over 80% of the total assets.

Risk indicators have been established based on the regulatory requirements and economic environment prevails in the country in order to assess the credit quality. These limits are reviewed by the IRMC quarterly or earlier if required. The following are some of the indicators in exposure to credit risk.

#### Non-Performing Loans (NPL) Ratio

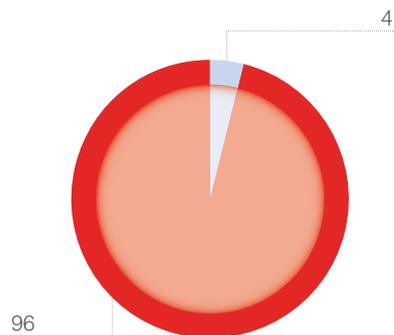


— Gross NPL  
— Net NPL

# Risk Management

### Exposure to Top 20 Customers - 2017

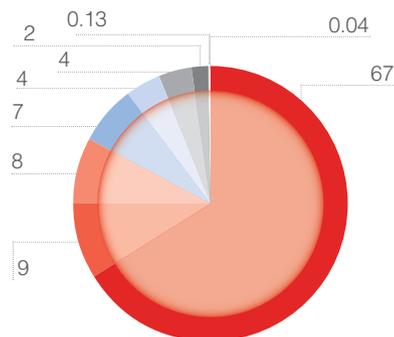
%



- Exposure of Top 20 Customers
- Exposure of Other Customers

### Geographical Concentration 2017

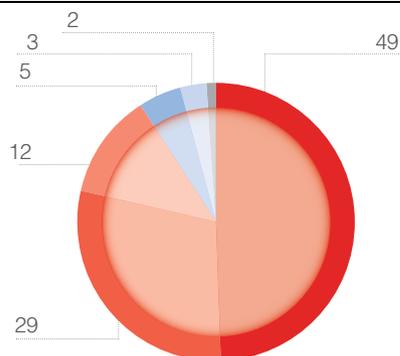
%



- Western
- North Western
- Sabaragamuwa
- Southern
- North Central
- Central
- Uva
- Eastern
- Northern

### Product Concentration - 2016

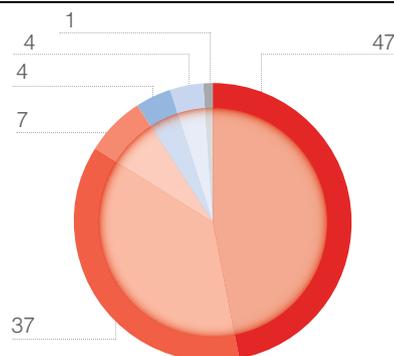
%



- Lease
- Mortgage Loans
- Hire Purchase
- Other Loans & Advances
- Gold Loans
- Loans against Fixed Deposits

### Product Concentration 2017

%



- Lease
- Mortgage Loans
- Hire Purchase
- Other Loans & Advances
- Gold Loans
- Loans against Fixed Deposits

## Maturity Analysis of Lending Portfolio as at 31st March 2017

Rs. '000

	Up to 3 months	3 to 12 Months	1 to 3 years	3 to 5 years	More than 5 years	Total
Total Loans and Advances (Net)	3,837,145	8,654,056	9,371,632	2,914,314	933	24,778,080

### Credit Risk Mitigation 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.

Credit Committee of the Company is responsible for overseeing of the credit risk and the Credit and Recovery Departments, reporting to the Credit Committee is responsible for monitoring and managing the Company's credit risk.

Credit risk mitigation strategies undertaken by the Company are summarised below. Adequacy of these risk management strategies are assessed regularly by the Credit Committee and quarterly by the IRMC.

- Strong credit policies have been formulated 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.
- Structured and standardized credit evaluation process has been established in order to assess credit exposures prior to facilities being committed to customers by the business line concerned.
- There is a clear authorization structure for the approval and renewal of credit facilities. Authorization 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 the lending is well diversified across a wide range of products, industries and customers.
- Reviews are carried out to monitor the compliance of business lines with agreed exposure limits, including those for selected industries and product types. Regular reports on the credit quality of portfolios are provided to the Board which may require appropriate corrective actions to be taken.
- The credit committee provides advice, guidance and specialist skills to business lines to promote best practice throughout the Company in the management of credit risk.
- Each business line is required to implement credit policies and procedures, with credit approval authorities delegated from 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 subject to central review.
- Regular audits of business lines and credit processes of the Company are undertaken by Internal Audit.

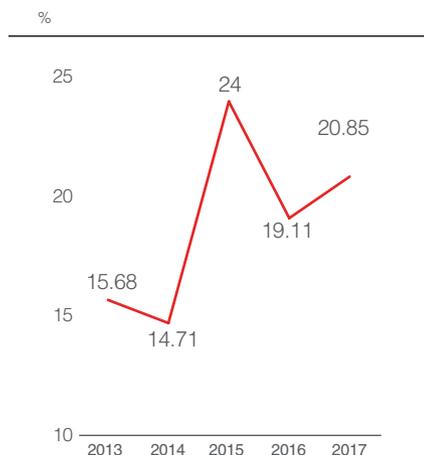
# Risk Management

## Liquidity Risk

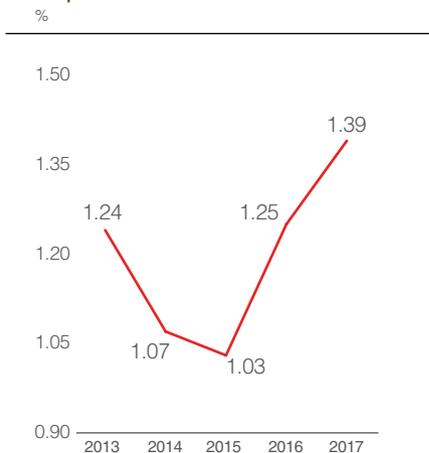
Liquidity risk is the risk of loss as a result of insufficient liquidity to cover current payment obligations. The Company may not be able to meet its obligations due to a lack of funds or having to meet these obligations at an excessive cost. This results from maturity mismatches between assets and 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 used by the company to assess the liquidity position are:

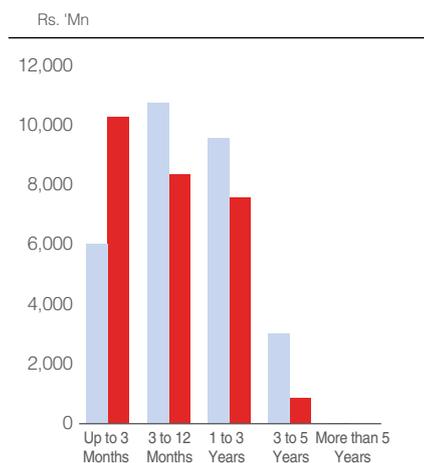
## Liquid Assets to Deposit Ratio



## Movement in Advances to Deposits Ratio



## Maturity Analysis of Interest Bearing Assets and Liabilities as at 31st March 2017



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## Liquidity Risk Mitigation Strategies

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. 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 the liquidity.
- 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.
- The statutory liquidity ratio is maintained well above the regulatory limit.
- Daily liquidity is monitored and considers stress scenarios covering various market conditions.
- Regular ALCO meetings are held and the Committee monitors 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.
- A summary report, including any exceptions and remedial action taken, is submitted to Integrated Risk Management Committee. Integrated Risk Management Committee approves liquidity risk

tolerances by reviewing how the Company's inability to meet its obligations when they become due as this may affect the Company's earnings, capital, and operations.

## Market Risk

Market risk is the possibility of losses to the Company from changes in market variables. Losses may result from changes in market variables such as interest rates, exchange rates, equity prices and commodity prices which will affect value of assets and liabilities or income adversely. 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.

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 in Integrated Risk Management Committee (IRMC) of the Company. The Treasury is entrusted with managing the market risk including interest rate risk and liquidity risk of the Company.

## Interest Rate Risk

Interest rate risk is the potential for changes in rates to reduce the Company's earnings or value.

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.

# Risk Management

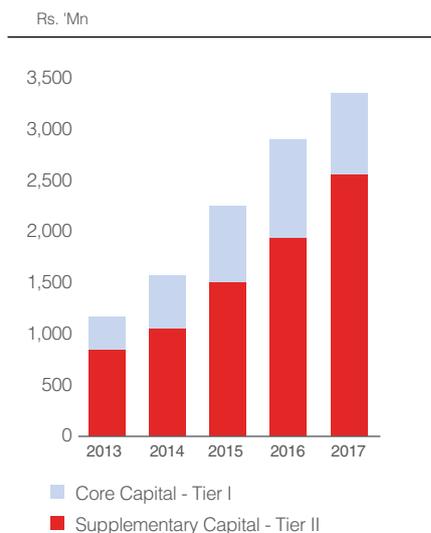
## Capital Risk

Capital risk is the risk that the Company has insufficient capital resources to meet minimum regulatory requirements and to support credit rating, growth and strategic options of the Company.

Capital Adequacy Ratio (CAR) is the measure of 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 is able to handle losses and fulfill 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.

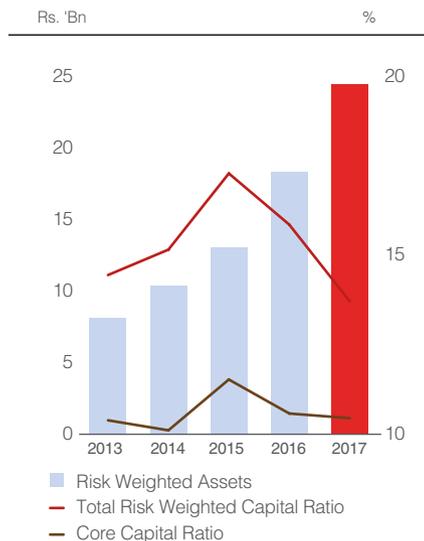
The Company's Capital adequacy ratios as at 31st March 2017 were 10.45% for Tier I and 13.72% for Tier I and II and are well above the minimum requirements of the Central Bank of a minimum 5% and a minimum 10% respectively. Please refer pages 192 and 193 in the notes to the Financial Statements for detailed breakdown of capital adequacy ratio computation.

### Total Capital Base



Capital Management is integral to the company's approach to financial stability and embedded in the way business operates. The ALCO 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 on a monthly basis and maintained above the minimum requirements specified by the regulator, The Central Bank of Sri Lanka.

### Capital Adequacy



## 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 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.

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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 act as early warning signals to identify a potential event that may harm daily business activities and the operations of the Company.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business line.

### **Legal Risk**

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Company.

Legal risk management commences from prior analysis, and a thorough understanding of and adherence to related legislation by the staff. Necessary precautions are taken at the designing stage of transactions to minimize 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.

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.

### **Compliance Risk**

Compliance risks are the potential threats to the company that resulting from non conformance with laws, regulations, rules, directions, prescribed practices and ethical standards.

Financial institutions in Sri Lanka are governed by the Central Bank of Sri Lanka which is the main regulatory body in the country. Every financial institution must obtain licence 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.

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.

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 in order to carry out the compliance function independently. Regular reviews are carried out in order to assess the Company's compliance with the regulatory and statutory requirements.

### **Reputational Risk**

Reputational risk is that of losing public trust or the tarnishing of the Company's image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. We consider reputational risk as a consequence of a failure to manage other key risks arising from the business activities.

Events that could lead to reputation risk are closely monitored, utilizing an early warning system that includes inputs from frontline staff, media reports, and internal and external market survey results.

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 blowing 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.

# Annual Report of The Board of Directors on the Affairs of the Company

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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 2017.

## 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 under the Companies Act, No.7 of 2007 on 20th August 2008 under Registration No. PB526.

The Ordinary Shares of the Company, 10,000,000 Rated, Guaranteed (Capital and Two Interest Installments), Subordinated Redeemable Debentures and 5,000,000 Unsecured Subordinated Redeemable Debentures issued by the Company are on the Main Board of the Colombo Stock Exchange.

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.

## Principal activities of the Company and review of performance during the year

The Company's principal activities are the accepting of deposits, granting of finance leases, hire purchase, granting of mortgage loans, gold loans, personal loans, micro finance and other credit facilities and related services in the finance business.

This Report and the Financial Statements reflect the state of affairs of the Company.

## Financial Statements

The financial statements of the Company are prepared in accordance with 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.

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 25th May 2017.

The Financial Statements of the Company duly signed by the AGM – Finance & Administration, and two Directors on behalf of the Board are given on pages 116 to 194, 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 appears on page 115.

## Accounting Policies

The accounting policies adopted in the preparation of the Financial Statements are given on pages 122 to 141. There were no significant changes to the accounting policies used by the Company during the year under review vis-à-vis those used in the previous year.

## 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 - Executive Director

### Non-Executive Directors

- Mr. K V P R De Silva\* - Chairman
- Mr. R M Karunartne\* - Director
- Mr. T Murakami\*\* - Director
- Mr. K D A Perera - Director
- Mr. A Dadigama\* - 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

Based on the declarations made by the Independent Non-Executive Directors under the Listing Rules, the Board determined that Messrs K V P R De Silva, R M Karunaratne and A Dadigama who held office during the period under review, 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).

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.

### Interest Register

The Company maintains an interests register in terms of the Companies Act, No. 7 of 2007, 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 2017 as recorded in the interests register are given in this report under Directors’ shareholding.

### Related Party 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 applicable rules and regulations of the relevant regulatory authorities.

Transactions of related parties (as defined in LKAS 24 - Related Parties Disclosure) with the Company are set out in Note 47 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 2017.

### Directors’ Remuneration

The Directors’ remuneration is disclosed under Note 47.2.1.1 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 is Rs. 287,153,000/- (Rs. 287,153,000/- as at 31st March 2016).

The number of shares issued by the Company stood at 41,550,600 fully paid ordinary shares as at 31st March 2017 (41,550,600 fully paid ordinary shares as at 31st March 2016).

### Directors’ shareholding

The relevant interests of Directors in the shares of the Company as at 31st March 2017 are as follows:

Name of Director	Shareholding as at 31/03/2017	Shareholding as at 31/03/2016
Mr. K V P R De Silva	Nil	Nil
Mr. Dhammika Perera*	600	600
Mr. S B Rangamuwa	880,092	860,092
Mr. R M Karunaratne	Nil	Nil
Mr. T Murakami	Nil	Nil
Mr. K D A Perera**	1,359,809	1,266,879
Mr. A Dadigama	Nil	Nil

\*Mr. Dhammika Perera is the Chairman and major shareholder of Vallibel Investments (Pvt) Ltd which held 30,277,000 shares constituting 72.87% of the issued shares of the Company.

\*\*Mr. K D A Perera also serves as a Director of Vallibel Investments (Pvt) Ltd.

# Annual Report of The Board of Directors on the Affairs of the Company

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## 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 198 and 199 Earnings, Dividends, Net Assets per Share, appear on page 04.

## Auditors

Messrs KPMG, Chartered Accountants served as the Auditors during the year under review.

A total amount of Rs. 1,935,000 is payable by the Company to the Auditors for the year under review which comprise of Rs. 1,535,000 as Statutory Audit & Audit Related Services and Rs. 400,000 as Non Audit Services.

The Auditors have expressed their willingness to continue in office. A resolution to reappoint the Auditors and to authorize the Directors to determine their remuneration will be proposed at the Annual General Meeting.

## Dividends

A first and final dividend of Rs. 2.50 per share for the year ended 31st March 2016 was paid on 21st June 2016.

## Donations

The total amount of donations made during the year under review is Rs. 126,391 /-

## Property, Plant and Equipment

Details of Property, Plant and Equipment and changes during the year are given in Note 32 & 33 of the Financial Statements.

## Material Foreseeable Risk Factors

The section on Risk Management on pages 93 and 101 sets out the processes currently practiced by the Company to identify and manage the risks.

## Land Holdings

The Company's land holdings referred to in Note 32 of the Financial Statements represent a land of an extent of 15.20 perches with a building situated at No. 126-5, Highlevel Road, Maharagama which is carried at its book value of Rs. 30,000,000 (the current market value being Rs. 30 million), a land of an extent of 10 perches with a building situated at No. 121-D, Gala Junction, Kandy Road, Kiribathgoda which is carried at its book value of Rs 26,319,000 (the current market value being Rs. 26.32 million) and a land of an extent of 5.70 perches with a building situated at No. 128, Main Street, Galle which is carried at its book value of Rs. 66,306,000 (the current market value being Rs. 66.30 million).

## 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 of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No.3 of 2011.

The Corporate Governance Statement on page 52 to 54 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.

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The composition of the said Committees is as follows:

#### **Audit Committee**

Mr. Aravinda Dadigama  
Independent Non-Executive Director (Chairman)

Mr. R M Karunaratne  
Independent Non-Executive Director

Mr. T Murakami  
Non-Executive Director

The Report of the Audit Committee appears on page 108 and 109.

#### **Remuneration Committee**

Mr. K V P R De Silva  
Independent Non-Executive Director (Chairman)

Mr. K D A Perera  
Non-Executive Director

Mr. R M Karunaratne  
Independent Non-Executive Director

The Remuneration Committee recommends the remuneration payable to the Managing Director and other key management personnel. 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  
Independent Non-Executive Director (Chairman)

Mr. R M Karunaratne  
Independent Non-Executive Director

Mr. T Murakami  
Non-Executive Director

The Report of the Related Party Transactions Review Committee appears on page 110.

#### **Integrated Risk Management Committee**

Mr. R M Karunaratne  
Independent Non-Executive Director - (Chairman)

Mr. A Dadigama  
Independent Non-Executive Director

Mr. S B Rangamuwa  
Managing Director/CEO

Mr. Niroshan Perera  
Deputy General Manager - Credit

Mr. K D Menaka Sameera  
Assistant General Manager – Finance & Administration

Mr. T U Amaraweera  
Assistant General Manager – Asset Management

#### **Annual General Meeting**

The Annual General Meeting will be held on 28th June 2017 at 10.00 a.m at the Auditorium of Institute of Chartered Accountants of Sri Lanka 30A, Malalasekera Mawatha, Colombo 07.

The notice of the Annual General Meeting appears on page 211.

This Annual Report is signed for and on behalf of the Board of Directors by

  
**K V P R De Silva**  
Chairman

  
**S B Rangamuwa**  
Managing Director

  
**Anusha Wijesekara**  
P W Corporate Secretarial (Pvt) Ltd  
Secretaries

25th May 2017  
Colombo

# Integrated Risk Management Committee Report

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## Composition of the Integrated Risk Management Committee (IRMC)

IRMC is comprised of two Non Executive Directors, CEO and three representatives from the senior management. The composition of the Integrated Risk Management Committee is as follows.

**Mr. R M Karunaratne**

Independent Non Executive Director (Chairman)

**Mr. A Dadigama**

Independent Non Executive Director

**Mr. S B Rangamuwa**

Managing Director/CEO

**Mr. Niroshan Perera**

Deputy General Manager - Credit

**Mr. K D Menaka Sameera**

Assistant General Manager - Finance & Administration

**Mr. T U Amaraweera**

Assistant 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

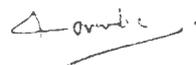
- To ensure that a compliance function is in place to assess the Company's compliance with laws, regulations, rules, directions, regulatory guidelines, internal controls and other prescribed practices
- To ensure that the Board of Directors is kept updated of the Company's risk exposure

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.



**R. M. Karunaratne**

Chairman

**Integrated Risk Management Committee**

25th May 2017

# Directors' Statement on Internal Control over Financial Reporting

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## Responsibility

In line with the Finance Companies Direction, No. 03 of 2008, section 10(2)(b), the Board of Directors presents this report on Internal Control over 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 Board's policies and procedures pertaining to Internal Control over Financial Reporting. The management has started the process of documenting the system of Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Auditors of the Company for suitability of design and effectiveness on an on-going 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. The matters addressed by the External Auditors in this respect, are being looked into.

By order of the Board



**K V P R De Silva**  
Chairman



**S B Rangamuwa**  
Managing Director



**A Dadigama**  
Chairman  
**Audit Committee**

25th May 2017

# Audit Committee Report

## Composition of the Audit Committee

The Audit Committee, appointed by the Board of Directors of Vallibel Finance PLC, comprises of three Non-Executive Directors two of whom are Independent Directors as well. 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

The Chairman, Mr. A Dadigama, is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, with more than 23 years of experience in Finance, Treasury and Risk Management.

## 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 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

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	5/5
Mr. T Murakami (by his Alternate Director)	Non-Executive	1/5

The Company Secretaries function as the Secretaries to the Committee. The Managing Director and the Assistant 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.

## Internal Audit

During the year under review, the Committee reviewed the Audit Reports presented by Messrs Ernst and Young, Chartered Accountants to whom the internal audit function is outsourced together with the management responses. Risk-based audit approach was adopted with a view to rationalize the usage of audit resources.

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### **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 2018, 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**

25th May 2017

# Related Party Transactions Review Committee Report

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## Composition of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee, appointed by the Board of Directors of Vallibel Finance PLC, comprises of a combination of 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

Brief profile of each member of the Committee is given on pages 15 to 17.

## 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.

## Meetings

The Committee held four meetings during the year, in quarterly intervals, to review the Related Party Transactions of the Company.

## 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 as stipulated by Listing Rules of the Colombo Stock Exchange.

Details of other Related Party Transactions are given in Note No. 47 to the Financial Statements on pages 175 to 178.



**A Dadigama**

Chairman

**Related Party Transactions Review Committee**

25th May 2017



# Good Results Real Value



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# Statement of Directors' 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 judgements 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 2017/18, 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

25th May 2017

# Independent Auditors' Report



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426  
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Internet : [www.kpmg.com/lk](http://www.kpmg.com/lk)

## TO THE SHAREHOLDERS OF VALLIBEL FINANCE PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Vallibel Finance PLC, ("the Company"), which comprise the statement of financial position as at 31st March 2017, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 116 to 194.

### Board's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion 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 and the financial statements of the Company, comply with the requirements of section 151 of the Companies Act.

CHARTERED ACCOUNTANTS  
Colombo

25th May 2017

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

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

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.

# Income Statement

For the Year Ended 31st March	Page No.	Note	2017 Rs.	2016 Rs.	Change %
<b>Gross Income</b>	142	9	5,114,694,482	3,468,276,901	47.5
Interest Income	142	10.1	4,597,260,244	3,244,786,741	41.7
Interest Expense	144	10.2	(2,586,588,604)	(1,558,667,730)	65.9
<b>Net Interest Income</b>	142	10	2,010,671,640	1,686,119,011	19.2
Fee and Commission Income	144	11	189,052,650	109,128,266	73.2
<b>Net Fee and Commission Income</b>			189,052,650	109,128,266	73.2
Net Gain / (Loss) from Trading	144	12	1,010,838	(639,083)	258.2
Gain from Financial Investments	144	13	22,230	20,520	8.3
Other Operating Income	144	14	327,348,520	114,980,457	184.7
<b>Total Operating Income</b>			2,528,105,878	1,909,609,171	32.4
Impairment (Charges) / Reversals for Loans and other losses	145	15	(33,041,325)	(70,182,156)	(52.9)
<b>Net Operating Income</b>			2,495,064,553	1,839,427,015	35.6
<b>Expenses</b>					
Personnel Expenses	145	16	(549,309,630)	(436,060,020)	26.0
Premises Equipment and Establishment Expenses			(103,242,118)	(87,538,076)	17.9
Other Operating Expenses			(518,041,616)	(404,093,342)	28.2
<b>Operating Profit Before Value Added Tax (VAT) &amp; Nation Building Tax (NBT)</b>	145	17	1,324,471,189	911,735,577	45.3
Value Added Tax (VAT) on Financial Services & Nation Building Tax (NBT)	146	18	(229,689,842)	(128,112,003)	79.3
<b>Profit Before Income Tax</b>			1,094,781,347	783,623,574	39.7
Income Tax Expense	146	19	(368,622,373)	(270,359,053)	36.3
<b>Profit for the Year</b>			726,158,974	513,264,521	41.5
<b>Earnings Per Share</b>	147	20			
Basic Earnings Per Share			17.48	12.35	41.5
Diluted Earnings Per Share			17.48	12.35	41.5

The notes appearing on pages 122 to 194 are an integral part of these Financial Statements.

Figures in brackets indicate deductions.

# Statement of Profit of Loss and Other Comprehensive Income

For the Year Ended 31st March	Page No.	Note	2017 Rs.	2016 Rs.	Change %
Profit for the Year			726,158,974	513,264,521	41.5
Other Comprehensive Income, Net of Tax					
Items that will never be reclassified to Profit or Loss					
Remeasurement of Retirement Benefit Obligation	171	41.3	7,274,213	2,582,738	181.6
Deferred Tax ( Charge ) / Reversal on Actuarial Gains / (Losses)	170	39.2	(2,036,780)	(723,167)	181.6
Net Actuarial Gains / (Losses) on Retirement Benefit Obligation			5,237,433	1,859,571	181.6
Items that are or may be reclassified to Profit or Loss					
Gains / (Losses) on remeasuring Available For Sale Financial Assets	160	29.1	1,174,150	(17,266,607)	106.8
Net Fair Value Gains / (Losses) on remeasuring Available For Sale Financial Assets			1,174,150	(17,266,607)	106.8
Other Comprehensive Income for the Year, Net of Tax			6,411,583	(15,407,036)	141.6
Total Comprehensive Income for the Year			732,570,557	497,857,485	47.1

The notes on pages 122 to 194 are an integral part of these Financial Statements.

Figures in brackets indicate deductions.

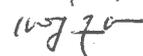
# Statement of Financial Position

As at 31st March	Page No.	Note	2017 Rs.	2016 Rs.	Change %
<b>Assets</b>	148	22			
Cash and Cash Equivalents	154	24.1	806,206,582	519,315,084	55.2
Placements with Banks and Other Finance Companies	154	25	2,243,112,840	1,312,169,859	70.9
Reverse Repurchase Agreements			810,190,562	1,679,716,852	(51.8)
Financial Investments - Held for Trading	155	26	1,761,300	4,067,378	(56.7)
Loans and Receivables to Other Customers	156	27	12,466,944,145	7,251,676,658	71.9
Lease Rental and Hire Purchase Receivables	158	28	12,311,135,772	11,228,228,344	9.6
Financial Investments - Available for Sale	160	29	510,085,388	104,658,351	387.4
Financial Investments - Held to Maturity	161	30	1,019,286,080	300,794,154	238.9
Other Financial Assets	161	31	20,827,738	15,968,593	30.4
Property, Plant and Equipment	162	32	315,103,615	194,787,387	61.8
Intangible Assets	163	33	10,297,779	4,129,612	149.4
Deferred Tax Assets	170	39.4	8,525,324	37,147,476	(77.1)
Other Assets	163	34	161,618,964	114,516,593	41.1
<b>Total Assets</b>			<b>30,685,096,089</b>	<b>22,767,176,341</b>	<b>34.8</b>
<b>Liabilities</b>	148	22			
Bank Overdrafts	154	24.2	1,487,193,561	1,224,665,038	21.4
Rental Received in Advance			243,881,527	208,870,398	16.8
Deposits due to Customers	164	35	17,863,861,472	14,804,037,141	20.7
Interest bearing Borrowings	164	36	6,043,391,985	2,243,116,105	169.4
Subordinated Term Debts	166	37	1,700,465,782	1,917,563,133	(11.3)
Current Tax Liabilities	169	38	209,076,751	38,687,596	440.4
Deferred Tax Liabilities	170	39.3	270,783,875	182,865,531	48.1
Other Liabilities	171	40	279,104,569	190,776,252	46.3
Retirement Benefit Obligations	171	41	29,716,585	27,669,222	7.4
<b>Total Liabilities</b>			<b>28,127,476,107</b>	<b>20,838,250,416</b>	<b>35.0</b>
<b>Equity</b>					
Stated Capital	173	42	287,153,000	287,153,000	-
Statutory Reserve Fund	174	43	528,408,694	383,176,899	37.9
Available For Sale Reserve	174	44	(6,834,947)	(8,009,097)	(14.7)
General Reserve	174	45	7,500,000	7,500,000	-
Retained Earnings	175	46	1,741,393,235	1,259,105,123	38.3
<b>Total Equity</b>			<b>2,557,619,982</b>	<b>1,928,925,925</b>	<b>32.6</b>
<b>Total Liabilities and Equity</b>			<b>30,685,096,089</b>	<b>22,767,176,341</b>	<b>34.8</b>
<b>Net Assets Value Per Share (Rs.)</b>			<b>61.55</b>	<b>46.42</b>	<b>32.6</b>

The notes appearing on pages 122 to 194 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.

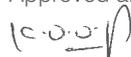


**K.D. Menaka Sameera**

AGM - 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

25th May 2017,  
Colombo.



**S.B. Rangamuwa**

Managing Director

# Statement of Changes in Equity

	Stated Capital	Statutory Reserve Fund	Available For Sale Reserve	General Reserve	Retained Earnings	Total Equity
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01st April 2015	287,153,000	280,523,995	9,257,510	7,500,000	929,735,135	1,514,169,640
<b>Total Comprehensive Income for the Year</b>						
Profit for the Year	-	-	-	-	513,264,521	513,264,521
<b>Other Comprehensive Income, net of Tax</b>						
Net Fair Value Gains / (Losses) on re-measuring Available For Sale Financial Assets	-	-	(17,266,607)	-	-	(17,266,607)
Net Actuarial Gains / (Losses) on Retirement Benefit Obligation	-	-	-	-	1,859,571	1,859,571
<b>Total Comprehensive Income for the Year</b>	-	-	(17,266,607)	-	515,124,092	497,857,485
<b>Transactions with owners, recognised directly in equity, contributions and distributions to owners</b>						
Dividends to equity holders	-	-	-	-	(83,101,200)	(83,101,200)
Statutory Reserve Transfer	-	102,652,904	-	-	(102,652,904)	-
<b>Total Transactions with Equity Holders</b>	-	102,652,904	-	-	(185,754,104)	(83,101,200)
<b>Balance as at 01st April 2016</b>	<b>287,153,000</b>	<b>383,176,899</b>	<b>(8,009,097)</b>	<b>7,500,000</b>	<b>1,259,105,123</b>	<b>1,928,925,925</b>
<b>Total Comprehensive Income for the Year</b>						
Profit for the Year	-	-	-	-	726,158,974	726,158,974
<b>Other Comprehensive Income, net of Tax</b>						
Net Fair Value Gains / (Losses) on re-measuring Available For Sale Financial Assets	-	-	1,174,150	-	-	1,174,150
Net Actuarial Gains / (Losses) on Retirement Benefit Obligation	-	-	-	-	5,237,433	5,237,433
<b>Total Comprehensive Income for the Year</b>	-	-	1,174,150	-	731,396,407	732,570,557
<b>Transactions with owners, recognised directly in equity, contributions and distributions to owners</b>						
Dividends to equity holders	-	-	-	-	(103,876,500)	(103,876,500)
Statutory Reserve Transfer	-	145,231,795	-	-	(145,231,795)	-
<b>Total Transactions with Equity Holders</b>	-	145,231,795	-	-	(249,108,295)	(103,876,500)
<b>Balance as at 31st March 2017</b>	<b>287,153,000</b>	<b>528,408,694</b>	<b>(6,834,947)</b>	<b>7,500,000</b>	<b>1,741,393,235</b>	<b>2,557,619,982</b>

The notes appearing on pages 122 to 194 are an integral part of these Financial Statements.

Figures in brackets indicate deductions.

# Cash Flow Statement

For the Year Ended 31st March	2017	2016
	Rs.	Rs.
<b>Cash Flow from Operating Activities</b>		
Interest and Commission Receipts	4,653,149,908	3,323,777,986
Interest Payments	(2,459,131,516)	(1,363,959,644)
Cash Receipts from Customers	388,968,294	175,341,431
Cash Payments to Employees and Suppliers	(1,274,848,263)	(979,926,646)
<b>Operating Profit Before Changes in Operating Assets and Liabilities ( Note A )</b>	<b>1,308,138,423</b>	<b>1,155,233,127</b>
<b>( Increase ) / Decrease in Operating Assets</b>		
Short Term Funds	16,112,202	34,023,866
Deposits held for Regulatory or Monetary Control Purposes	49,214,402	(1,714,651,266)
Funds Advanced to Customers	(6,296,073,697)	(5,942,762,970)
Other Short Term Negotiable Securities	(1,175,956,492)	1,809,029,534
<b>Increase / ( Decrease ) in Operating Liabilities</b>		
Deposits from Customers	2,696,142,789	2,517,433,370
Certificate of Deposits	256,659,525	(5,144,121)
<b>Net Cash (Used in) / Generated from Operating Activities before Income Tax</b>	<b>(3,145,762,848)</b>	<b>(2,146,838,460)</b>
Current Taxes Paid	(83,729,501)	(201,910,436)
Gratuity Paid	(547,440)	(169,400)
<b>Net Cash (Used in) / Generated from Operating Activities</b>	<b>(3,230,039,789)</b>	<b>(2,348,918,296)</b>
<b>Cash Flows from Investing Activities</b>		
Dividends Received	253,075	136,395
Proceed from Sale of Financial Investments - Held for Trading	3,086,071	-
Proceed from Sale of Property , Plant and Equipment	2,132,014	6,094,500
Purchase of Property, Plant and Equipment	(182,566,611)	(70,456,559)
Purchase of Intangible Assets	(8,916,000)	(2,353,464)
<b>Net Cash (Used in) / Generated from Investing Activities</b>	<b>(186,011,451)</b>	<b>(66,579,128)</b>
<b>Cash Flows from Financing Activities</b>		
Net Increase / (decrease) in Borrowings	3,544,290,715	1,899,062,528
Dividend Paid	(103,876,500)	(83,101,200)
<b>Net Cash (Used in) / Generated from Financing Activities</b>	<b>3,440,414,215</b>	<b>1,815,961,328</b>
<b>Net Increase / ( Decrease ) in Cash &amp; Cash Equivalents</b>	<b>24,362,975</b>	<b>(599,536,094)</b>
Cash & Cash Equivalents at the Beginning of the Year	(705,349,954)	(105,813,860)
<b>Cash &amp; Cash Equivalents at end of the Year ( Note B )</b>	<b>(680,986,979)</b>	<b>(705,349,954)</b>

For the Year Ended 31st March	2017	2016
	Rs.	Rs.
<b>Note A</b>		
<b>Reconciliation of Operating Profit Before Changes in Operating Assets and Liabilities</b>		
Profit Before Income Tax	1,094,781,347	783,623,574
Amortisation of Intangible Assets	2,747,833	2,412,441
Accrual for Interest Payable	144,917,741	202,949,172
Accrual for Interest Receivable	(57,419,414)	29,819,481
Accrual for Other Payable	44,292,318	22,767,453
Depreciation of Property, Plant and Equipment	58,179,730	52,382,027
Impairment Charges for Loans and other losses	33,041,325	70,182,156
Dividend Income	(253,075)	(136,395)
Net marked to Market Loss	103,000	754,958
Capital Gain from Sale of Financial Investments - Held for Trading	(882,993)	-
Gain / (Loss) on Disposal of Property, Plant & Equipment	1,938,640	(1,634,798)
Notional Tax Credit	(13,308,026)	(7,886,940)
	1,308,138,423	1,155,233,127
<b>Note B</b>		
<b>Cash &amp; Cash Equivalents at the end of the Year</b>		
Cash in Hand and Balances at Banks	806,206,582	519,315,084
Bank Overdrafts	(1,487,193,561)	(1,224,665,038)
	(680,986,979)	(705,349,954)

The notes on pages 122 to 194 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.

The registered office of the Company is located 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.

The Staff strength of the Company as at 31st March 2017 was 694 (600 as at 31st March 2016).

Corporate information is presented in the inner back cover of this Annual Report.

### 1.2. Principal Business Activities and Nature of Operations

The principal business activities of the Company are accepting deposits, granting finance leases, hire purchase, granting of mortgage 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.

These SLFRSs and LKASs are available at [www.casrilanka.com](http://www.casrilanka.com).

### 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 (SLFRSs and LKASs).

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:

- an Income Statement and 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 of the Company as at the year end.
- 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 2017 (including comparatives for 2016) were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on 25th May 2017.

### 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.

- Held for trading financial instruments are measured at fair value.
- Financial investments – Available for sale measured at fair value.
- Defined Benefit Obligation is recognised 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 Lankan 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.

Note to the financial statements are presented in a systematic manner which ensure 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 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

# Notes to the Financial Statements

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.

## 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. Judgment

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 provide scope for assets to be classified at inception into different accounting categories under certain circumstances.

- In classifying financial assets or liabilities at 'Fair value through profit or loss' (FVTPL), the Company has determined that it has met the criteria for this designation set out in Note 5.1.3.1.
- In classifying financial assets as 'Held to maturity' (HTM), the Company has determined that it has both the positive intention and ability to hold the assets until their maturity date.
- In classifying financial assets as 'Available for sale' (AFS), the Company has determined that all non-derivative financial assets that are designated as available for sale or those financial assets not

classified as loans and receivables, FVTPL or HTM be classified as AFS.

### B. Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting material adjustments for the year ended 31st March 2017 are included in the following notes.

#### 2.12.2 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded 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 Loans and Receivables

The Company reviews its individually significant loans and receivables at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the provision made.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgments 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.

Loans and receivables that have been assessed individually and found to be not impaired and all individually insignificant loans and receivables are assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made based on incurred loss events for

which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan type, levels of arrears etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, interest rates).

The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

#### **2.12.4 Impairment of Financial Investments - Available for Sale**

The Company reviews the equity investments and debt securities classified as available for sale investments at each Reporting date to assess whether they are impaired. This requires similar judgments as applied on the individual assessment of loans and advances.

The Company records impairment charges on available for sale equity investments and debt securities when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, historical price movements and duration and extent to which the fair value of an investment is less than its cost.

#### **2.12.5. 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.

#### **2.12.6. 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.

#### **2.12.7. Deferred Tax Assets**

Deferred tax assets are recognised in respect of loan impairment allowances which will be recovered in the foreseeable future and tax losses to the extent it is probable that future taxable profits will be available against which such losses can be set off. 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.

#### **2.12.8 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.

#### **2.13. 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.

# Notes to the Financial Statements

## 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.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

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 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

### Level 1

When available, the Company measures the fair value of an instrument using the quoted price in the 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

If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other

instruments that are substantially the same, discounted cash flow analyses, credit models, option pricing models and other relevant valuation models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

### Level 3

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined by using valuation models that have been tested against prices or inputs to actual market transactions and also using the best estimate of the most appropriate model assumptions. 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 as set out in notes to all the periods in these Financial Statements.

#### 5. Significant Accounting Policies – Recognition of Assets and Liabilities

##### 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 purpose and characteristics and the management's intention in acquiring them.

All financial instruments are initially measured at their fair value plus transaction costs, that are directly attributable to acquisition or issue of such financial instruments except in the case of financial assets and financial liabilities as per the Sri Lanka Accounting Standard – LKAS 39 on “ Financial Instruments : Recognition and Measurement”.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

###### 5.1.2.1 “Day 1” Profit or Loss on Employee below Market Loans

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

Company classifies financial assets into one of the following categories:

- Financial Assets at Fair value through profit or loss, and within this category as :
  - held for trading ; or
  - designated at fair value through profit or loss
- Loans and receivables;
- Held to maturity and
- Available for Sale

The subsequent measurement of the financial assets depends on their classification.

###### 5.1.3.1. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed below.

###### 5.1.3.1.1 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.

# Notes to the Financial Statements

The Company evaluates its financial assets held for trading, to determine whether the intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances.

## 5.1.3.1.2 Financial Assets Designated at Fair Value through Profit or Loss

The Company designates financial assets at fair value through profit or loss in the following circumstances:

- The assets are managed, evaluated and reported internally at fair value; or
- The designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or
- The asset contains an embedded derivative that significantly modifies the cash flows which would have been required under the contract.

Financial assets designated at fair value through profit or loss is recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'Interest Income', using the EIR, while dividend income is recorded in 'other operating income' when the right to receive the payment has been established.

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

## 5.1.3.2. Loans and Receivables

'Loans and receivables' comprises of non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss

- Those that the Company, upon initial recognition, designates as available for sale
- Those that the Company, upon initial recognition, designates as held to maturity
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration

'Loans and receivables' include Placements with Banks and other Finance Companies, Lease Rental and Hire Purchase Receivables, Loans and Receivables to other Customers, Reverse Repurchase Agreements and other financial investments classified as loans and receivables of the Company.

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 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, 'loans and advances' are subsequently measured at amortised cost using the EIR, less provision for impairment except when the Company designates loans and receivables at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income'. The losses arising from impairment are recognised in the Income Statement in 'Impairment charges for loans and other losses' in the Income Statement.

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. Subsequent to initial recognition, these securities issued are measured at their amortised cost using the EIR method with the corresponding interest receivable being recognised as interest income in the Income Statement.

'Other financial investments classified as loans and receivables' include debt instruments. After initial measurement, these are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'impairment charges for loans and other losses'.

#### 5.1.3.3 Held to Maturity Financial Investments

Held to Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity and which are not designated at Fair value through profit or loss or Available for Sale. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment provision. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement in 'Impairment charges for loans and other losses'.

A sale or reclassification of a more than insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale, and would prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

- sales or reclassifications after the Company has collected substantially all of the asset's original principal; and
- Sales or reclassifications those are attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

#### 5.1.3.4 Available for Sale Financial Investments

Available for sale investments include equity securities and debt securities. Equity investments classified as Available for Sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in Equity through Other Comprehensive Income in the 'Available-For-Sale Reserve'. When these financial investments are disposed of, the cumulative gain or loss previously recognised in Equity is recycled to Income Statement in 'Other operating income'. Interest earned whilst holding Available for Sale financial investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding Available for Sale financial investments are recognised in the Income Statement as 'Net Gain / (Loss) from financial investments' when the right to receive the payment has been established. The losses arising from impairment of such investments too are recognised in the Income Statement in 'Impairment charges for loans and other losses' and removed from the 'Available for Sale reserve'.

#### 5.1.3.5 Cash and Cash Equivalents

Cash and cash equivalents include of cash in hand and balances at bank 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.

# Notes to the Financial Statements

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.

## 5.1.4. Classification and Subsequent Measurement of Financial Liabilities

Company classifies financial liabilities 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 selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. Gains or losses on liabilities held for trading are recognised in the Income Statement.

Financial Liabilities designated at Fair Value through Profit or Loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in "Net Gain or Loss on Financial Assets and Liabilities designated at Fair Value through 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.

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 Expenses' 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 re classified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. The Company reclassifies financial assets and liabilities into and out of the different categories of financial instruments as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

### 5.1.5.1 Reclassification of Financial Instruments - Fair value through profit or loss

The Company does not reclassify financial instruments out of the fair value through profit or loss category while it is held or issued. Non-derivative financial assets and liabilities designated at fair value through profit or loss upon initial recognition are not reclassified subsequently out of fair value through profit or loss category.

The Company may in rare circumstances, reclassify financial instruments out fair value through profit or loss category, if such instruments are no longer held for the purpose of selling or repurchasing in the near term notwithstanding that such

financial instruments may have been acquired for the purpose of selling or repurchasing in the near term.

Financial assets classified as fair value through profit or loss at the initial recognition which would have also met the definition of 'loans and receivable' as at that date is reclassified out of the fair value through profit or loss category only if the Company has the intention or ability to hold such asset for the foreseeable future or until maturity.

Fair value of financial instrument at the date of reclassification becomes the new cost or new amortised cost of the financial instrument. Any gain or loss already recognised in respect of the reclassified financial instrument until the date of reclassification is not reversed to the Income Statement.

If financial asset is reclassified and if the Company subsequently increases its estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of such increase is recognised as an adjustments to the EIR from the date of the change in estimate rather than an adjustment to the carrying amount of the asset at the date of change in estimates.

The Company does not reclassify any financial instrument into the 'Fair value through profit or loss' category after initial recognition.

#### **5.1.5.2 Reclassification of Financial investments – Available for Sale**

The Company may reclassify financial investments out of available-for-sale category as a result of change in intention or ability or in rare circumstances that a reliable measure of fair value is no longer available. For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset that does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss. If a financial asset is reclassified and if the Company subsequently

increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

#### **5.1.5.3 Reclassification of Financial Investments – Held to Maturity**

As a result of a change in intention or ability, if it is no longer appropriate to classify an investment as held to maturity, Company may reclassify such financial asset as available-for-sale and remeasured at fair value. Any difference between the carrying value of the financial asset before reclassification and fair value is recognised in equity through other comprehensive income (OCI).

However, if the Company were to sell or reclassify more than an insignificant amount of held-to-maturity financial investments before maturity (other than in certain specific circumstances permitted in the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'), the entire category would be tainted and would have to be reclassified as available-for sale. Furthermore, the Company would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

The above reclassifications at the election of the Management and is determined on an instrument-by-instrument basis.

### **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

# Notes to the Financial Statements

obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. 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. Examples of such transactions are securities lending and sale and repurchase transactions.

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.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised, if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

## 5.1.6.2 Financial Liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of

the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

## 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 Measurement

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 recognised and the maturity amount, minus any reduction for impairment.

## 5.1.9 Identification and Measurement of Impairment of Financial Assets

At each Reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include:

- significant financial difficulty of the borrower or issuer,
- rescheduling of credit facilities,
- default or delinquency by a borrower,

- restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider,
- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security, or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment.

#### 5.1.9.1. Impairment of Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost (such as lease rental and hire purchase receivables, loans and receivables to other customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is, recognised are included in a collective assessment of impairment together with the not financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of impairment loss is recognised in the Income Statement.

For the purpose of collective evaluation of impairment, financial assets are grouped on a basis which takes in to consideration credit risk characteristics.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the

basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

#### 5.1.9.2. Impairment of Financial Investments - Available for Sale

For available for sale financial investments, the Company assesses at each Reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income on such assets too is recorded within 'Interest income'.

If, in a subsequent period, the fair value of an impaired available for sale debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the Income Statement; otherwise any increase in fair value is recognised through Other Comprehensive Income. In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost.

Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement is removed from equity and recognised in the Income Statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in Other Comprehensive Income.

# Notes to the Financial Statements

## 5.1.9.3 Collateral Valuation

The Company seeks to use collateral, where possible to mitigate the risks on Financial Assets. The Collateral comes in various forms such as vehicles, gold, real estate, inventories and other non –financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on Company's valuation policy.

## 5.1.9.4 Collateral Repossessed

The Company's policy is to sell the repossessed assets at the earliest possible opportunity. Such collateral repossessed are held on a memorandum basis without de recognising the underlying receivable.

## 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 are recognised 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

- Cost Model

The Company applies the Cost Model to all Property, Plant & Equipment and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

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.

### 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 less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Freehold Buildings	15 years
Leasehold Buildings	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 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).

### **5.3. Intangible Assets**

The Company's intangible assets include the value of Computer Software.

#### **5.3.1. 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.

#### **5.3.2. 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.

#### **5.3.3. 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
-------------------	---------

#### **5.3.4. 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.

### **5.4. Leases**

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### **5.4.1. Operating Leases**

##### **5.4.1.1. 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.

# Notes to the Financial Statements

## 5.4.1.2. 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.

## 5.4.2. Finance Leases

### 5.4.2.1. 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 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.

### 5.4.2.2. 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.

## 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.

An impairment loss in respect of goodwill is not reversed. For other assets, 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. 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.

## 5.7. 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.

## 5.8. 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.

## 5.9. Other Liabilities

Other liabilities are recorded at amounts expected to be payable at the Reporting date.

## 5.10. 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.

### 5.10.1 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.

## 5.11. Employee Benefits

### 5.11.1. 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.

The defined benefits obligation is calculated annually by independent actuaries using Projected Unit Credit Method (PUC) as recommended by LKAS-19, "employee benefits".

Actual 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.

### 5.11.2. 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.

#### 5.11.2.1. 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.

#### 5.11.2.2. 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.

# Notes to the Financial Statements

## 5.12. Earnings per Share (EPS)

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.

## 5.13. 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.

## 5.14. 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. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

## 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 and associated costs incurred or to be incurred can be reliably measured. The following specific criteria are used for the purpose of recognition of revenue.

### 6.1. Interest Income and Expense

Interest income and expense are recognised in profit or loss using the Effective Interest Rate (EIR) method.

The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

When calculating the EIR, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Interest income and expense presented in the Income Statement Include:

- Interest on Held for trading financial instruments calculated using EIR method;
- Interest on Loans and receivables calculated using EIR method;
- Interest on Available for sale investments calculated using EIR method;
- Interest on Held to maturity investments calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

## 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 Financial Investments

'Net gain / (loss) from financial investments' comprise gains less losses related to Available for Sale investments, Held to Maturity investments and Loans and receivables and include all realised and unrealised fair value changes and dividends.

## 6.5. Income 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.

### 6.5.1 Current Taxation

'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. 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. 10 of 2006 and amendments thereto. 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'.

### 6.5.2 Deferred Taxation

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.

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.

## 6.6. Value Added Tax on Financial Services

The value base for the computation of value added tax on financial services is calculated by adjusting the 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.

## 6.7. Nation Building Tax on Financial Services (NBT)

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. NBT is chargeable on the same base used

# Notes to the Financial Statements

for calculation of VAT on Financial services as explained in notes to the Financial Statements.

## 6.8. 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.

## 6.9 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.

## 6.10 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. Currently, the ESC is 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).

## 7. Significant Accounting Policies – Statement of Cash Flows

### 7.1. Statement of Cash Flows

The Statement of Cash Flows has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the 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 favourable balances with banks.

## 8. New Accounting Standards Issued but not Effective

A number of new standards and amendments to standards, which have been issued but not yet effective as at the Reporting date, have not been applied in preparing these Financial Statements. Accordingly, the following Accounting Standards have not been applied in preparing these Financial

Statements and the Company plans to apply these standards on the respective effective dates:

- SLFRS 9 "Financial Instruments"

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial Assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held to maturity, Loans and receivables and Available for sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL.

The model uses a dual measurement approach, under which the loss allowance is measured as either:

- 12 month expected credit loss; or
- Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carried guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements.

Effective date of SLFRS 9 has been deferred till January 01, 2018.

The Company has completed the initial high level qualitative assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9 with the assistance of an external consultant.

The next phase being the implementation phase will commence from end May 2017. During this Phase the Company will implement a business model approach and solely payment of principal and interest criteria to ensure that financial assets are classified into the appropriate categories.

Need to build a model with appropriate methodologies and controls to ensure that judgment exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk.

Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the Company's operations, this standard is expected to have a pervasive impact on the Company's Financial Statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.

- SLFRS 15 "Revenue from Contracts with customers"

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable Financial Statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities will apply five-step model to determine when to recognize revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts' and IFRIC 13 on 'Customer Loyalty Programmes'.

SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2018.

The Company does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.

- SLFRS 16 "Leases"

SLFRS 16 eliminates the current dual accounting model for leases which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.

The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

# Notes to the Financial Statements

For the Year Ended 31st March	2017	2016
	Rs.	Rs.
<b>9 Gross Income</b>		
Interest Income ( Note 10.1 )	4,597,260,244	3,244,786,741
Fee and Commission Income ( Note 11 )	189,052,650	109,128,266
Net Gain / (Loss) from Trading (Note 12)	1,010,838	(639,083)
Gain from Financial Investments (Note 13)	22,230	20,520
Other Operating Income ( Note 14)	327,348,520	114,980,457
	<b>5,114,694,482</b>	<b>3,468,276,901</b>
<b>10 Net Interest Income</b>		
Interest Income ( Note 10.1)	4,597,260,244	3,244,786,741
Interest Expense ( Note 10.2)	2,586,588,604	1,558,667,730
	<b>2,010,671,640</b>	<b>1,686,119,011</b>
<b>10.1 Interest Income</b>		
<b>10.1.1 Hire Purchase</b>		
Interest Income	243,351,215	579,827,552
Over Due Interest	36,880,187	68,999,587
	<b>280,231,402</b>	<b>648,827,139</b>
<b>10.1.2 Lease</b>		
Interest Income	1,926,013,585	1,445,685,395
Over Due Interest	223,995,633	172,199,723
	<b>2,150,009,218</b>	<b>1,617,885,118</b>
<b>10.1.3 Loans and Advances</b>		
Interest Income	1,478,717,584	639,701,721
Over Due Interest	98,231,788	56,238,761
	<b>1,576,949,372</b>	<b>695,940,482</b>
<b>10.1.4 Loans against Fixed Deposits</b>		
Interest Income	45,363,811	25,630,144
	<b>45,363,811</b>	<b>25,630,144</b>

For the Year Ended 31st March	2017 Rs.	2016 Rs.
<b>10.1.5 Microfinance Loans</b>		
Interest Income	29,186,647	-
	29,186,647	-
<b>10.1.6 Gold Loans</b>		
Interest Income	144,383,148	49,974,426
	144,383,148	49,974,426
<b>10.1.7 Fixed Deposits</b>		
Placements with Banks	171,872,728	101,150,611
Placements with Other Finance Companies	58,744,848	21,913,585
	230,617,576	123,064,196
<b>10.1.8 Interest on Call Deposits</b>	2,075,352	63,525
<b>10.1.9 Interest on Staff Loans</b>	5,363,454	4,532,307
<b>10.1.10 Interest Income from Sri Lanka Government Securities</b>	133,080,264	78,869,404
	4,597,260,244	3,244,786,741

#### 10.1.10.1 Credit for Withholding Tax on Government Securities on Secondary Market Transactions

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a Company which derives interest income from the secondary market transactions in Government securities be entitled to a notional tax credit (being one ninth of the net Interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, net income earned from secondary market transactions in Government securities for the year by the Company has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs. 13,308,026 (2015/16 - Rs. 7,886,940).

# Notes to the Financial Statements

For the Year Ended 31st March	2017	2016
	Rs.	Rs.
<b>10.2 Interest Expense</b>		
On Fixed Deposits	1,807,473,246	1,220,380,736
On Savings Deposits	402,458	-
On Certificate of Deposits	57,006,876	31,874,282
On Borrowings	499,293,831	80,475,237
On Finance Leases	-	16,349
On Debentures	222,412,193	225,921,126
	<b>2,586,588,604</b>	<b>1,558,667,730</b>
<b>11 Fee and Commission Income</b>		
Loans and Receivables related services	188,856,355	108,932,147
Other Financial Services	196,295	196,119
	<b>189,052,650</b>	<b>109,128,266</b>
<b>12 Net Gain / (Loss) from Trading</b>		
Net marked to Market Loss	(103,000)	(754,958)
Dividend Income from Financial Investments - Held for Trading	230,845	115,875
Capital Gain from Sale of Financial Investments - Held for Trading	882,993	-
	<b>1,010,838</b>	<b>(639,083)</b>
<b>13 Gain from Financial Investments</b>		
Dividend Income from Financial Investments - Available for Sale	22,230	20,520
	<b>22,230</b>	<b>20,520</b>
<b>14 Other Operating Income</b>		
Early Termination Income	268,693,587	85,997,759
Gain / (Loss) on Disposal of Property, Plant & Equipment	(1,938,640)	1,634,798
Redemption Income - Unit Trusts	44,992,251	10,921,659
Other Income	15,601,322	16,426,241
	<b>327,348,520</b>	<b>114,980,457</b>

For the Year Ended 31st March	2017 Rs.	2016 Rs.
<b>15 Impairment Charges / (Reversals) for Loans and other losses</b>		
On Hire Purchase Receivable	(22,125,766)	(13,721,536)
On Lease Receivable	14,586,439	15,855,052
On Loans Receivable	38,861,156	67,736,762
On Micro Finance Loans Receivable	1,208,289	-
On Gold Loan Receivable	379,794	311,878
On Other Financial Assets	131,413	-
	33,041,325	70,182,156
<b>16 Personnel Expenses</b>		
Salaries & Bonus	452,590,114	360,472,662
Retirement Benefit Costs (Note 41.2)	9,869,016	8,295,443
Employer's Contribution to Employee's Provident Fund	35,708,813	28,154,897
Employer's Contribution to Employee's Trust Fund	8,792,219	6,917,755
Staff Welfare Expenses	42,349,468	32,219,263
	549,309,630	436,060,020
<b>17 Operating Profit Before Value Added Tax (VAT) &amp; Nation Building Tax (NBT)</b>		
Operating Profit Before Value Added Tax & NBT is stated after charging all the expenses including the following:		
Professional Fees	3,980,158	920,111
Auditors Remuneration - Statutory Audit and Audit Related Services	1,535,000	1,025,000
- Non Audit Services	400,000	1,660,000
Directors Fees and Expenses	3,930,384	3,930,384
Depreciation of Property, Plant and Equipment	58,179,730	52,382,027
Amortisation of Intangible Assets	2,747,833	2,412,441
Advertising & Related Expenses	114,900,000	91,492,937
Business Promotion Expenses	57,625,849	48,666,082
Donations	126,391	547,010
Deposit Insurance Premium	19,019,964	16,361,757
CROP Insurance Levy	7,332,644	5,688,764
Personnel Expenses (Note 16)	549,309,630	436,060,020

# Notes to the Financial Statements

For the Year Ended 31st March	2017 Rs.	2016 Rs.
<b>18 Value Added Tax (VAT) on Financial Services &amp; Nation Building Tax (NBT)</b>		
Value Added Tax on Financial Services	199,908,856	109,922,086
Nation Building Tax on Financial Services	29,780,986	18,189,917
	<b>229,689,842</b>	<b>128,112,003</b>

## 19 Income Tax Expense

The Company is liable for tax at the rate of 28% on its taxable income in accordance with the Inland Revenue Act No 10 of 2006 and subsequent amendments made thereto. Provision has been made in the financial statements accordingly.

For the Year Ended 31st March	2017 Rs.	2016 Rs.
Current Income Tax Expense on Profits for the Year ( Note 19.1 )	257,660,201	145,750,587
(Over) / under provision in respect of previous year	(3,541,543)	1,556,600
	<b>254,118,658</b>	<b>147,307,187</b>
Deferred Tax Charge for the Year ( Note 39.2 )	114,503,715	123,051,866
	<b>368,622,373</b>	<b>270,359,053</b>
<b>19.1 Reconciliation of Accounting Profit to Income Tax Expense</b>		
Profit Before Income Tax	1,094,781,347	783,623,574
Add : Disallowable Expenses	5,985,722,767	4,301,872,796
Less : Tax Deductible Expenses	(6,115,296,858)	(4,553,900,506)
Less : Allowable Credits	(44,992,251)	(11,058,054)
<b>Assessable Income</b>	<b>920,215,005</b>	<b>520,537,810</b>
Less : Qualifying Payments	-	-
<b>Taxable Income</b>	<b>920,215,005</b>	<b>520,537,810</b>
Current Income Tax Expense @ 28%	257,660,201	145,750,587
	<b>257,660,201</b>	<b>145,750,587</b>

For the Year Ended 31st March	2017		2016	
	%	Rs.	%	Rs.
<b>19.2 Reconciliation of Effective Tax Rate</b>				
Profit Before Income Taxation		1,094,781,347		783,623,574
Taxable Income	28.0%	306,538,777	28.0%	219,414,601
Disallowable Expenses	153.1%	1,676,002,375	153.7%	1,204,524,383
Tax Deductible Expenses	-156.4%	(1,712,283,120)	-162.7%	(1,275,092,142)
Allowable Credits	-1.2%	(12,597,830)	-0.4%	(3,096,255)
Effects on Deferred Taxation	10.5%	114,503,714	15.7%	123,051,866
Effects on (Over) / under provision	-0.3%	(3,541,543)	0.2%	1,556,600
<b>Total Income Tax Expense</b>	<b>33.7%</b>	<b>368,622,373</b>	<b>34.5%</b>	<b>270,359,053</b>

## 20 Earnings Per Share

### 20.1 Basic Earnings per Share

The calculation of Basic Earnings Per Share was based on the profit attributable to ordinary shareholders and 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	2017 Rs.	2016 Rs.
Profit Attributable to Ordinary Shareholders (Rs.)	726,158,974	513,264,521
Weighted Average Number of Ordinary Shares (Note 20.1.1)	41,550,600	41,550,600
Basic Earnings Per Share (Rs.)	17.48	12.35
<b>20.1.1 Weighted Average Number of Ordinary Shares</b>		
At the beginning of the year	41,550,600	41,550,600
Issued during the year	-	-
Total as at end of the period	41,550,600	41,550,600

### 20.2 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.

## 21 Dividend Per Share

For the Year Ended 31st March	2017 Rs.	2016 Rs.
<b>21.1 Dividend Paid Per Share</b>		
Dividend Paid Per Share	2.50	2.00
	2.50	2.00

### 21.2 Dividend Proposed Per Share

The Directors have recommended the payment of a first and final dividend of Rs. 3.00 per share (Rs. 2.50 in 2015/16) subject to the approval of the Central Bank of Sri Lanka.

In accordance with the Sri Lanka Accounting Standard LKAS 10 - "Events After the Reporting Period" this proposed first and final dividend has not been recognised as a liability in the Financial Statements for the year ended 31st March 2017.

# Notes to the Financial Statements

## 22 Classification of Financial Assets and Financial Liabilities

### 22.1 Classification of Financial Assets and Financial Liabilities As at 31st March 2017

	Held For Trading (HFT) Rs.	Held To Maturity (HTM) Rs.	Loans and Receivables (L&R) Rs.	Available For Sale (AFS) Rs.	Total Carrying Amount Rs.
<b>Financial Assets</b>					
Cash and Cash Equivalents	-	-	806,206,582	-	806,206,582
Placements with Banks and Other Finance Companies	-	-	2,243,112,840	-	2,243,112,840
Reverse Repurchase Agreements	-	-	810,190,562	-	810,190,562
Financial Investments - Held for Trading	1,761,300	-	-	-	1,761,300
Loans and Receivables to Other Customers	-	-	12,466,944,145	-	12,466,944,145
Lease Rental and Hire Purchase Receivables	-	-	12,311,135,772	-	12,311,135,772
Financial Investments - Available for Sale	-	-	-	510,085,388	510,085,388
Financial Investments - Held to Maturity	-	1,019,286,080	-	-	1,019,286,080
Other Financial Assets	-	-	20,827,738	-	20,827,738
<b>Total Financial Assets</b>	<b>1,761,300</b>	<b>1,019,286,080</b>	<b>28,658,417,639</b>	<b>510,085,388</b>	<b>30,189,550,407</b>

	Held For Trading (HFT) Rs.	Amortised Cost Rs.	Total Carrying Amount Rs.
<b>Financial Liabilities</b>			
Bank Overdrafts	-	1,487,193,561	1,487,193,561
Rental Received in Advance	-	243,881,527	243,881,527
Deposits due to Customers	-	17,863,861,472	17,863,861,472
Interest bearing Borrowings	-	6,043,391,985	6,043,391,985
Subordinated Term Debts	-	1,700,465,782	1,700,465,782
<b>Total Financial Liabilities</b>	<b>-</b>	<b>27,338,794,327</b>	<b>27,338,794,327</b>

## 22.2 Classification of Financial Assets and Financial Liabilities As at 31st March 2016

	Held For Trading (HFT) Rs.	Held To Maturity (HTM) Rs.	Loans and Receivables (L&R) Rs.	Available For Sale (AFS) Rs.	Total Carrying Amount Rs.
<b>Financial Assets</b>					
Cash and Cash Equivalents	-	-	519,315,084	-	519,315,084
Placements with Banks and Other Finance Companies	-	-	1,312,169,859	-	1,312,169,859
Reverse Repurchase Agreements	-	-	1,679,716,852	-	1,679,716,852
Financial Investments - Held for Trading	4,067,378	-	-	-	4,067,378
Loans and Receivables to Other Customers	-	-	7,251,676,658	-	7,251,676,658
Lease Rental and Hire Purchase Receivables	-	-	11,228,228,344	-	11,228,228,344
Financial Investments - Available for Sale	-	-	-	104,658,351	104,658,351
Financial Investments - Held to Maturity	-	300,794,154	-	-	300,794,154
Other Financial Assets	-	-	15,968,593	-	15,968,593
<b>Total Financial Assets</b>	<b>4,067,378</b>	<b>300,794,154</b>	<b>22,007,075,390</b>	<b>104,658,351</b>	<b>22,416,595,273</b>

	Held For Trading (HFT) Rs.	Amortised Cost Rs.	Total Carrying Amount Rs.
<b>Financial Liabilities</b>			
Bank Overdrafts	-	1,224,665,038	1,224,665,038
Rental Received in Advance	-	208,870,398	208,870,398
Deposits due to Customers	-	14,804,037,141	14,804,037,141
Interest bearing Borrowings	-	2,243,116,105	2,243,116,105
Subordinated Term Debts	-	1,917,563,133	1,917,563,133
<b>Total Financial Liabilities</b>	<b>-</b>	<b>20,398,251,815</b>	<b>20,398,251,815</b>

# Notes to the Financial Statements

## 23 Fair Value of Assets and Liabilities

### 23.1 Assets and Liabilities Recorded at fair value

A description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques is summarised below which incorporates the Company's estimate of assumptions that a market participant would make when valuing the instruments.

#### Financial Investments - Held for Trading

Financial Investments - Held for Trading consists of quoted equities. These quoted equities are valued using quoted market price in active markets as at the reporting date.

#### Financial Investments - Available for Sale

Financial Investments - Available for Sale consists of Government Debt Securities and unquoted equities. Government Debt securities have been valued using the market rates published by the Central Bank of Sri Lanka. Value of unquoted shares of Rs. 203,800 as at end of year 2016/17 (Rs. 203,800 as at end of year 2015/16) categorised under Financial Investments - Available for Sale whose fair value cannot be reliably measured is stated at cost in the Statement of Financial Position as permitted by the LKAS 39 on "Financial Instruments: Recognition and Measurement".

### 23.2 Valuation Model

The fair values are measured using the fair value hierarchy described in notes to the Financial Statements.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained.

### 23.3 Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>As at 31st March 2017</b>				
<b>Financial Investments - Held for Trading</b>				
Equity Shares - Quoted	1,761,300	-	-	1,761,300
	1,761,300	-	-	1,761,300
<b>Financial Investments - Available for Sale</b>				
Government of Sri Lanka Treasury Bonds	509,881,588	-	-	509,881,588
	509,881,588	-	-	509,881,588
<b>As at 31st March 2016</b>				
<b>Financial Investments - Held for Trading</b>				
Equity Shares - Quoted	4,067,378	-	-	4,067,378
	4,067,378	-	-	4,067,378
<b>Financial Investments - Available for Sale</b>				
Government of Sri Lanka Treasury Bonds	104,454,551	-	-	104,454,551
	104,454,551	-	-	104,454,551

### 23.4 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:

#### 23.4.1 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.

#### 23.4.2 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.

# Notes to the Financial Statements

## 23.4.3 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.

	Carrying Value Rs.	Fair Value			Total Rs.
		Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	
<b>As at 31st March 2017</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	806,206,582	-	-	-	806,206,582
Placements with Banks and Other Finance Companies	2,243,112,840	-	2,243,112,840	-	2,243,112,840
Reverse Repurchase Agreements	810,190,562	-	810,190,562	-	810,190,562
Loans and Receivables to Other Customers	12,466,944,145	-	-	12,354,582,777	12,354,582,777
Lease Rental and Hire Purchase Receivables	12,311,135,772	-	-	12,131,548,883	12,131,548,883
Financial Investments - Held to Maturity	1,019,286,080	1,016,440,022	-	-	1,016,440,022
Other Financial Assets	20,827,738	-	-	20,827,738	20,827,738
	29,677,703,719	1,016,440,022	3,053,303,402	24,506,959,398	29,382,909,404
<b>Financial Liabilities</b>					
Bank Overdrafts	1,487,193,561	-	-	-	1,487,193,561
Rental Received in Advance	243,881,527	-	243,881,527	-	243,881,527
Deposits due to Customers	17,863,861,472	-	-	17,760,942,617	17,760,942,617
Interest bearing Borrowings	6,043,391,985	-	-	6,025,398,021	6,025,398,021
Subordinated Term Debts	1,700,465,782	-	-	1,578,985,331	1,578,985,331
	27,338,794,327	-	243,881,527	25,365,325,968	27,096,401,056

	Carrying Value	Fair Value			Total
	Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	
<b>As at 31st March 2016</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	519,315,084	-	-	-	519,315,084
Placements with Banks and Other Finance Companies	1,312,169,859	-	1,312,169,859	-	1,312,169,859
Reverse Repurchase Agreements	1,679,716,852	-	1,679,716,852	-	1,679,716,852
Loans and Receivables to Other Customers	7,251,676,658	-	-	7,158,350,880	7,158,350,880
Lease Rental and Hire Purchase Receivables	11,228,228,344	-	-	11,180,678,228	11,180,678,228
Financial Investments - Held to Maturity	300,794,154	295,216,271	-	-	295,216,271
Other Financial Assets	15,968,593	-	-	15,968,593	15,968,593
	22,307,869,544	295,216,271	2,991,886,711	18,354,997,701	22,161,415,767
<b>Financial Liabilities</b>					
Bank Overdrafts	1,224,665,038	-	-	-	1,224,665,038
Rental Received in Advance	208,870,398	-	208,870,398	-	208,870,398
Deposits due to Customers	14,804,037,141	-	-	14,804,037,141	14,804,037,141
Interest bearing Borrowings	2,243,116,105	-	-	2,243,116,105	2,243,116,105
Subordinated Term Debts	1,917,563,133	-	-	1,917,563,133	1,917,563,133
	20,398,251,815	-	208,870,398	18,964,716,379	20,398,251,815

# Notes to the Financial Statements

As at 31st March		2017	2016
		Rs.	Rs.
<b>24</b>	<b>Cash and Cash Equivalents</b>		
	Cash and Cash equivalents ( Note 24.1 )	806,206,582	519,315,084
	Bank Overdrafts ( Note 24.2 )	(1,487,193,561)	(1,224,665,038)
	Net cash and Cash Equivalents	(680,986,979)	(705,349,954)
<b>24.1</b>	Cash at Bank	702,419,623	263,961,868
	Cash in Hand	103,786,959	255,353,216
		806,206,582	519,315,084
<b>24.2</b>	Bank Overdrafts	(1,487,193,561)	(1,224,665,038)

As at 31st March		2017	2016
		Rs.	Rs.
<b>25</b>	<b>Placements with Banks and Other Finance Companies</b>		
	Placements with Banks and Other Finance Companies	2,243,112,840	1,312,169,859
		2,243,112,840	1,312,169,859

	Institute	Type of Investment	2017	2016
			Rs.	Rs.
Placements with Banks	PABC Bank PLC	Fixed Deposit	1,424,622,055	785,905,857
	Hatton National Bank PLC	Fixed Deposit	533,157,260	120,545,902
	PABC Bank PLC	Call Deposit	-	300,063,525
	Cargills Bank	Fixed Deposit	27,466,781	-
	Seylan Bank PLC	Fixed Deposit	54,962,329	-
Other Finance Companies	LB Finance PLC	Fixed Deposit	1,822,004	105,654,575
	Commercial Leasing & Finance PLC	Fixed Deposit	201,082,411	-
			2,243,112,840	1,312,169,859

	2017 Rs.	2016 Rs.
<b>26 Financial Investments - Held for Trading</b>		
Quoted Equities (Note 26.1)	1,761,300	4,067,378
	1,761,300	4,067,378
<b>26.1 Investments in Quoted Equities</b>		
Balance at the Beginning of the year	4,067,378	4,822,336
Movement during the year	(2,203,078)	-
Gain / (Loss) from marked to market valuation	(103,000)	(754,958)
Balance at the End of the year	1,761,300	4,067,378

	No of Ordinary shares	Cost of Investment Rs.	Market Price as at 31/03/2017 Rs.	Market Value as at 31/03/2017 Rs.	Market Price as at 31/03/2016 Rs.	Market Value as at 31/03/2016 Rs.
<b>Bank, Finance &amp; Insurance</b>						
Singer Finance ( Lanka ) PLC	103,000	1,918,331	17.10	1,761,300	18.10	1,864,300
<b>Diversified Holdings</b>						
Browns Capital PLC	-	-	-	-	1.20	2,203,078
<b>Total Quoted Equities</b>	103,000	1,918,331		1,761,300		4,067,378

# Notes to the Financial Statements

As at 31st March	2017 Rs.	2016 Rs.
<b>27 Loans and Receivables to Other Customers</b>		
Gross Loans and Receivables	12,628,299,997	7,372,583,271
Allowance for Impairment	(161,355,852)	(120,906,613)
<b>Net Loans and Receivables (Note 27.1)</b>	<b>12,466,944,145</b>	<b>7,251,676,658</b>
<b>27.1 Net Loans and Receivables</b>		
<b>27.1.1 Receivable on Loans and advances</b>	<b>11,083,943,371</b>	<b>6,452,352,610</b>
<b>27.1.2 Receivable on Loans against fixed deposits</b>	<b>377,656,166</b>	<b>277,329,779</b>
<b>27.1.3 Receivable on Microfinance Loans</b>	<b>108,282,749</b>	<b>-</b>
<b>27.1.4 Receivable on Gold Loans</b>	<b>897,061,859</b>	<b>521,994,269</b>
	<b>12,466,944,145</b>	<b>7,251,676,658</b>
<b>27.1.1 Receivable on Loans and advances</b>		
Future receivable	13,998,270,258	8,216,781,158
Future interest	(2,756,352,955)	(1,645,315,772)
Gross Receivable on Loans and advances	11,241,917,303	6,571,465,386
Allowance for impairment	(157,973,932)	(119,112,776)
<b>Net Receivable on Loans and advances</b>	<b>11,083,943,371</b>	<b>6,452,352,610</b>
<b>27.1.2 Receivable on Loans against Fixed Deposits</b>		
Future receivable	377,656,166	277,329,779
Future interest	-	-
Gross Receivable on Loans against Fixed Deposits	377,656,166	277,329,779
Allowance for impairment	-	-
<b>Net Receivable on Loans against Fixed Deposits</b>	<b>377,656,166</b>	<b>277,329,779</b>
<b>27.1.3 Receivable on Microfinance Loans</b>		
Future receivable	109,491,038	-
Future interest	-	-
Gross Receivable on Micro Finance Loans	109,491,038	-
Allowance for impairment	(1,208,289)	-
<b>Net Receivable on Microfinance Loans</b>	<b>108,282,749</b>	<b>-</b>

As at 31st March	2017 Rs.	2016 Rs.
<b>27.1.4 Receivable on Gold Loans</b>		
Future receivable	899,235,490	523,788,106
Future interest	-	-
Gross Receivable on Gold Loans	899,235,490	523,788,106
Allowance for impairment	(2,173,631)	(1,793,837)
<b>Net Receivable on Gold Loans</b>	<b>897,061,859</b>	<b>521,994,269</b>
<b>21.1.5 Allowance for Impairment</b>		
Balance brought forward	120,906,613	52,857,973
Net impairment charge for the year	40,449,239	68,048,640
<b>Balance carried forward</b>	<b>161,355,852</b>	<b>120,906,613</b>

# Notes to the Financial Statements

As at 31st March	2017 Rs.	2016 Rs.
<b>28 Lease Rental and Hire Purchase Receivables</b>		
28.1 Hire Purchase Receivables	793,685,839	2,124,439,330
28.2 Lease Rental Receivables	11,517,449,933	9,103,789,014
	<b>12,311,135,772</b>	<b>11,228,228,344</b>
<b>28.1 Hire Purchase Receivables</b>		
<b>28.1.1 Future Receivables</b>	1,086,974,240	2,794,571,908
Future Interest	(132,365,654)	(487,084,065)
Gross Hire Purchase Receivables	954,608,586	2,307,487,843
Allowance for Impairment (Note 28.1.5)	(160,922,747)	(183,048,513)
<b>Net Hire Purchase Receivables</b>	<b>793,685,839</b>	<b>2,124,439,330</b>
<b>28.1.2 Hire purchase receivables within one year from Statement of Financial Position date</b>		
Future Receivables	719,139,860	1,450,829,053
Future Interest	(93,763,833)	(293,769,740)
	<b>625,376,027</b>	<b>1,157,059,313</b>
<b>28.1.3 Hire purchase receivables after one year but before five years from Statement of Financial Position date</b>		
Future Receivables	367,834,380	1,343,655,355
Future Interest	(38,601,821)	(193,310,711)
	<b>329,232,559</b>	<b>1,150,344,644</b>
<b>28.1.4 Hire purchase receivables after five years from Statement of Financial Position date</b>		
Future Receivables	-	87,500
Future Interest	-	(3,614)
	-	83,886
<b>28.1.5 Allowance for Impairment</b>		
Balance brought forward	183,048,513	196,770,049
Net impairment reversal for the year	(22,125,766)	(13,721,536)
<b>Balance carried forward</b>	<b>160,922,747</b>	<b>183,048,513</b>

As at 31st March	2017 Rs.	2016 Rs.
<b>28.2 Lease Rental Receivables</b>		
<b>28.2.1 Future Receivables</b>	15,619,144,903	12,322,363,265
Future Interest	(3,733,567,756)	(2,865,033,476)
Gross Lease Rental Receivables	11,885,577,147	9,457,329,789
Allowance for Impairment (Note 28.2.5)	(368,127,214)	(353,540,775)
<b>Net Lease Rental Receivables</b>	<b>11,517,449,933</b>	<b>9,103,789,014</b>
<b>28.2.2 Lease rental receivables within one year from Statement of Financial Position date</b>		
Future Receivables	6,573,058,577	5,158,175,705
Future Interest	(1,869,658,637)	(1,458,482,498)
	4,703,399,940	3,699,693,207
<b>28.2.3 Lease rentals receivables after one year but before five years from Statement of Financial Position date</b>		
Future Receivables	9,046,086,326	7,161,271,532
Future Interest	(1,863,909,119)	(1,406,509,601)
	7,182,177,207	5,754,761,931
<b>28.2.4 Lease rentals receivables after five years from Statement of Financial Position date</b>		
Future Receivables	-	2,916,028
Future Interest	-	(41,377)
	-	2,874,651
<b>28.2.5 Allowance for Impairment</b>		
Balance brought forward	353,540,775	337,685,723
Net impairment charge for the year	14,586,439	15,855,052
<b>Balance carried forward</b>	<b>368,127,214</b>	<b>353,540,775</b>

# Notes to the Financial Statements

	2017 Rs.	2016 Rs.
<b>29 Financial Investments - Available for Sale</b>		
Government of Sri Lanka Treasury Bonds (Note 29.1)	509,881,588	104,454,551
Unquoted Equities - (Note 29.2)	203,800	203,800
	510,085,388	104,658,351
<b>29.1 Government of Sri Lanka Treasury Bonds</b>		
Balance as at 01st April	104,454,551	120,325,979
Movement During the year	404,252,887	1,395,179
Gain / (Loss) on marked to Market valuation	1,174,150	(17,266,607)
<b>Balance as at 31st March</b>	<b>509,881,588</b>	<b>104,454,551</b>

	Face Value  Rs.	Year of Maturity	Cost of Investment  Rs.	Carrying Value as at 31/03/2017  Rs.	Rate of Interest  %
<b>29.1.1 Government of Sri Lanka Treasury Bonds</b>					
Treasury Bonds	115,000,000	2021	104,656,136	106,827,195	9.00%
Treasury Bonds	400,000,000	2018	390,911,600	403,054,393	8.50%
	515,000,000		495,567,736	509,881,588	

	No of Ordinary shares	Cost of investment  Rs.	Market Value/ Manager's Buying Price as at 31/03/2017 Rs.	Market Value/ Manager's Buying Price as at 31/03/2016 Rs.
<b>29.2 Unquoted Equities</b>				
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

**29.2.1** All unquoted Available for sale equities are recorded at cost, since there is no market value for these investments and the Company intends to hold them for the long term.

### **30 Financial Investments - Held to Maturity**

	2017 Rs.	2016 Rs.
Government of Sri Lanka Treasury Bills - Face Value	1,050,257,000	315,000,000
Less:- Income allocated for future periods	(30,970,920)	(14,205,846)
	1,019,286,080	300,794,154

### **As at 31st March**

	2017 Rs.	2016 Rs.
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### **31 Other Financial Assets**

Gross Staff Loans (Note 31.1)	20,959,151	15,968,593
Allowance for Impairment (Note 31.2)	(131,413)	-
<b>Net Staff Loans</b>	<b>20,827,738</b>	<b>15,968,593</b>

#### **31.1 Gross Staff Loans**

Balance as at 01st April	15,968,593	11,806,411
Granted during the year	17,087,000	14,945,000
Recovered during the year	(13,822,435)	(10,248,989)
Net change in Prepaid Staff Cost during the year	1,725,993	(533,829)
<b>Balance as at 31st March</b>	<b>20,959,151</b>	<b>15,968,593</b>

#### **31.2 Allowance for Impairment**

Balance brought forward	-	-
Net Impairment charge during the year	131,413	-
<b>Balance carried forward</b>	<b>131,413</b>	<b>-</b>

# Notes to the Financial Statements

## 32 Property, Plant and Equipment

	Freehold Land		Leasehold Building		Capital WIP		Computer Equipment		Furniture & Fittings		Office Equipment		Freehold Motor Vehicles		Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>																
As at 01st April	56,319,000	12,000,000	1,950,000	-	51,456,547	136,385,487	76,443,925	39,219,785	373,774,744	313,277,865						
Additions	66,306,000	10,499,500	-	10,886,252	14,055,000	50,787,067	26,337,792	3,695,000	182,566,611	70,456,559						
Transfers	-	7,943,814	-	(10,886,252)	-	2,942,438	-	-	-	-						
Disposals	-	-	-	-	(163,330)	(9,830,110)	(5,764,630)	(1,008,711)	(16,766,781)	(9,959,680)						
<b>As at 31st March</b>	<b>122,625,000</b>	<b>30,443,314</b>	<b>1,950,000</b>	<b>-</b>	<b>65,348,217</b>	<b>180,284,882</b>	<b>97,017,087</b>	<b>41,906,074</b>	<b>539,574,574</b>	<b>373,774,744</b>						
<b>Accumulated Depreciation</b>																
As at 01st April	-	2,214,306	32,500	-	30,406,727	88,405,440	37,394,838	20,533,546	178,987,357	132,105,307						
Depreciation for the year	-	800,400	195,000	-	10,296,790	22,491,147	17,106,186	7,290,207	58,179,730	52,382,027						
Disposals/Transfers	-	-	-	-	(149,358)	(7,118,000)	(4,502,559)	(926,211)	(12,696,128)	(5,499,977)						
<b>As at 31st March</b>	<b>-</b>	<b>3,014,706</b>	<b>227,500</b>	<b>-</b>	<b>40,554,159</b>	<b>103,778,587</b>	<b>49,998,465</b>	<b>26,897,542</b>	<b>224,470,959</b>	<b>178,987,357</b>						
<b>Carrying Amount</b>																
As at 31st March 2017	122,625,000	27,428,608	1,722,500	-	24,794,058	76,506,295	47,018,622	15,008,532	315,103,615	-						
As at 31st March 2016	56,319,000	9,785,694	1,917,500	-	21,049,820	47,980,047	39,049,087	18,686,239	-	194,787,387						

**32.1** Based on the assessment of potential impairment carried out internally by the Board of Directors as at 31st March 2017, no provision was required to be made in the Financial statements.

**32.2** Property, Plant & Equipment included fully depreciated assets having a gross amount of Rs. 119,067,884/- as at 31st March 2017 (2015/16 Rs. 92,385,552/-).

**32.3** There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year ( 2015/16 - nil ).

**32.4** There were no restrictions on the title of the Property, Plant & Equipment as at 31st March 2017.

**32.5** There were no items of Property, Plant & Equipment pledged as security as at 31st March 2017.

**32.6** There were no items of Property, Plant & Equipments retired from the active use as at 31st March 2017.

**32.7** There were no temporary idle items of Property, Plant & Equipment as at 31st March 2017.

**32.8** Details of freehold properties of the Company are given below.

	Extent Perches	Buildings Sq.ft.	Cost of Land		Accumulated Depreciation	Net Book Value	
			Rs.	Rs.		As at 31st March 2017	As at 31st March 2016
Maharagama Branch	15.2		30,000,000			30,000,000	30,000,000
No. 126-5, Highlevel Road, Maharagama.		7,121		14,499,500	1,725,174	12,774,326	2,541,626
Kiribathgoda Branch	10.0		26,319,000			26,319,000	26,319,000
No. 121-D, Gala Junction, Kandy Road, Kiribathgoda		2,626		8,000,000	1,289,532	6,710,468	7,244,068
Galle Branch	5.70		66,306,000			66,306,000	-
No. 128, Main Street Galle		1,558		7,943,814	-	7,943,814	-

As at 31st March	2017 Rs.	2016 Rs.
<b>33 Intangible Assets</b>		
Computer Software (Note 33.1)	10,297,779	4,129,612
	10,297,779	4,129,612
<b>33.1 Intangible Assets</b>		
<b>Cost</b>		
Balance as at 01st April	11,022,620	8,669,156
Additions	8,916,000	2,353,464
<b>Balance as at 31st March</b>	<b>19,938,620</b>	<b>11,022,620</b>
<b>Accumulated Amortisation</b>		
Balance as at 01st April	6,893,008	4,480,567
Charge for the year	2,747,833	2,412,441
<b>Balance as at 31st March</b>	<b>9,640,841</b>	<b>6,893,008</b>
<b>Carrying Amount</b>		
<b>As at 31st March 2017</b>	<b>10,297,779</b>	<b>-</b>
<b>As at 31st March 2016</b>	<b>-</b>	<b>4,129,612</b>
<b>As at 31st March</b>	<b>2017 Rs.</b>	<b>2016 Rs.</b>
<b>34 Other Assets</b>		
Refundable Deposits	18,039,611	16,069,611
Taxes Recoverable	84,850,970	20,306,444
Prepaid Staff Cost	3,843,736	5,569,729
Advance Payments	16,309,808	27,973,248
Vehicle stock	940,000	11,476,850
Insurance Claim Receivable	676,349	-
Other Debtors	36,958,490	33,120,711
	161,618,964	114,516,593

# Notes to the Financial Statements

As at 31st March	2017	2016
	Rs.	Rs.
<b>35 Deposits due to Customers</b>		
Fixed Deposits	17,233,108,463	14,444,690,052
Savings Deposits	14,746,396	-
Certificate of Deposits	616,006,613	359,347,089
	<b>17,863,861,472</b>	<b>14,804,037,141</b>

## 35.1 Analysis of Deposits due to Customers by Maturity Date

As at 31st March 2017	1 to 90 days	91 to 365 days	More than 365 days	Total
	Rs.	Rs.	Rs.	Rs.
Fixed Deposits	7,652,373,566	6,265,104,272	3,315,630,625	17,233,108,463
Savings Deposits	14,746,396	-	-	14,746,396
Certificate of Deposits	313,577,239	246,871,521	55,557,853	616,006,613
	<b>7,980,697,201</b>	<b>6,511,975,793</b>	<b>3,371,188,478</b>	<b>17,863,861,472</b>

As at 31st March 2016	1 to 90 days	91 to 365 days	More than 365 days	Total
	Rs.	Rs.	Rs.	Rs.
Fixed Deposits	5,963,297,448	5,944,338,910	2,537,053,694	14,444,690,052
Savings Deposits	-	-	-	-
Certificate of Deposits	115,871,411	242,272,079	1,203,599	359,347,089
	<b>6,079,168,859</b>	<b>6,186,610,989</b>	<b>2,538,257,293</b>	<b>14,804,037,141</b>

<b>36 Interest bearing Borrowings</b>		
Institutional Borrowings ( Note 36.1 )	6,043,391,985	2,243,116,105
	<b>6,043,391,985</b>	<b>2,243,116,105</b>

36.1 Institutional Borrowings

	As at 31/03/2016		Facility Obtained		Interest Recognised		Repayments		As at 31/03/2017		Tenure of Loan	Security Offered
	Rs.		Rs.		Rs.		Rs.		Rs.			
	Capital	Interest	Capital	Interest	Capital	Interest	Capital	Interest	Capital	Interest		
Bank of Ceylon 1	15,277,733	423,482	-	423,482	15,277,733	423,482	-	-	-	-	36-48 Months	Mortgage bond over lease & Hire Purchase portfolio
Bank of Ceylon 2	874,999,996	61,113,686	-	61,113,686	250,000,008	57,191,277	628,922,397	-	628,922,397	-	48 Months	Mortgage bond over lease & Hire Purchase portfolio
Bank of Ceylon 3	-	30,628,024	299,052,691	30,628,024	-	-	329,680,715	-	329,680,715	-	24 Months	Mortgage bond over lease & Hire Purchase portfolio
Bank of Ceylon 4	-	39,259,737	501,294,757	39,259,737	59,144,062	36,855,938	444,554,494	-	444,554,494	-	24 Months	Mortgage bond over lease & Hire Purchase portfolio
Bank of Ceylon 5	-	167,376,113	2,973,312,500	167,376,113	312,500,000	144,784,931	2,683,403,682	-	2,683,403,682	-	48 Months	Mortgage bond over lease & Hire Purchase portfolio
PABC Bank	475,838,464	53,278,921	-	53,278,921	166,666,667	53,611,461	308,839,257	-	308,839,257	-	36 Months	Mortgage bond over lease & Hire Purchase portfolio
Deutsche Bank 1	74,855,369	5,595,958	-	5,595,958	65,509,042	5,528,666	9,413,619	-	9,413,619	-	48 Months	Mortgage bond over lease & Hire Purchase portfolio
Deutsche Bank 2	-	2,533,696	724,991,325	2,533,696	-	-	727,525,021	-	727,525,021	-	18 Months	Mortgage bond over lease & Hire Purchase portfolio
Seylan Bank 1	500,348,361	56,141,583	-	56,141,583	125,004,000	55,703,993	375,781,951	-	375,781,951	-	48 Months	Mortgage bond over lease & Hire Purchase portfolio
Seylan Bank 2	-	55,311,864	499,624,625	55,311,864	114,587,000	54,488,242	385,861,247	-	385,861,247	-	48 Months	Mortgage bond over lease & Hire Purchase portfolio
Cargills Bank	201,193,443	22,375,971	-	22,375,971	50,880,874	23,278,938	149,409,602	-	149,409,602	-	48 Months	Mortgage bond over lease & Hire Purchase portfolio
NDB Bank	100,602,739	5,254,795	-	5,254,795	100,000,000	5,857,534	-	-	-	-	3 Months	Mortgage bond over lease & Hire Purchase portfolio
	2,243,116,105	499,293,830	4,998,275,898	499,293,830	1,259,569,386	437,724,462	6,043,391,985	-	6,043,391,985	-		

\* Facility obtained is reported net of transaction cost.

# Notes to the Financial Statements

	Amount as at 31st March 2017 Rs.	Terms of Repayment Period	Repayment Terms
<b>36.1.1 Details of Borrowings</b>			
Bank of Ceylon 2	628,922,397	48 Months	Monthly rentals
Bank of Ceylon 3	329,680,715	24 Months	Monthly rentals
Bank of Ceylon 4	444,554,494	24 Months	Monthly rentals
Bank of Ceylon 5	2,683,403,682	48 Months	Monthly rentals
PABC Bank	308,839,257	36 Months	Monthly rentals
Deutsche Bank 1	9,413,619	48 Months	Monthly rentals
Deutsche Bank 2	727,525,021	18 Months	Monthly rentals
Seylan Bank 1	375,781,951	48 Months	Monthly rentals
Seylan Bank 2	385,861,247	48 Months	Monthly rentals
Cargills Bank	149,409,602	48 Months	Monthly rentals
	6,043,391,985		

## 37 Subordinated Term Debts

	2017 Rs.	2016 Rs.
Balance as at 1st April	1,917,563,133	1,859,653,357
Movement during the year	(217,097,351)	57,909,776
<b>Balance as at 31st March</b>	1,700,465,782	1,917,563,133

**37.1** In 2011 Company issued 225,000 Unsecured Subordinate Redeemable Debentures at the value of Rs.1,000/- each accumulated to Rs.225,000,000/- with maturity of five years. The issue was carried out in two tranches. These debentures were redeemed on respective maturity dates.

Debenture Category	Interest Payment Frequency	Allotment Date	Maturity date	Effective Annual yield %	Amortised Cost at 31st March 2017 Rs.	Amortised Cost at 31st March 2016 Rs.
2011 / 2016 - 13.00% p.a.	Annually	19-Dec-11	18-Dec-16	13.00%	-	103,477,598
2011 / 2016 - 13.00% p.a.	Annually	30-Dec-11	29-Dec-16	13.00%	-	129,346,998
					-	232,824,596

**37.2** In 2013 Company issued 150,000 Unsecured Subordinate Redeemable Debentures at the value of Rs.1,000/- each accumulated to Rs.150,000,000/- with maturity of five years. The issue was carried out in three tranches.

Debenture Category	Interest Payment Frequency	Allotment Date	Maturity date	Effective Annual yield % at 31 March 2017	Amortised Cost at 31st March 2017 Rs.	Amortised Cost at 31st March 2016 Rs.
2012/2017 - 364 Days TB rate (Gross) + 4.50%	Annually	14-Aug-12	13-Aug-17	15.89%	55,027,021	54,051,982
2012/2017 - 364 Days TB rate (Gross) + 4.50%	Annually	15-Aug-12	14-Aug-17	15.89%	22,002,027	21,613,746
2012/2017 - 364 Days TB rate (Gross) + 4.50%	Annually	27-Aug-12	26-Aug-17	15.89%	87,586,630	86,116,731
					164,615,678	161,782,459

## Notes to the Financial Statements

**37.3** In 2014 Company further issued 5,000,000 Unsecured Subordinated Redeemable Debentures at the value of Rs.100/- each accumulated to Rs. 500,000,000 with maturity of five years. The debentures are quoted on the Colombo Stock Exchange.

Debenture Category	Interest Payment Frequency	Allotment Date	Maturity date	Effective Annual yield % at 31 March 2017	Amortised Cost at 31st March 2017 Rs.	Amortised Cost at 31st March 2016 Rs.
2014/2019 - 14.75% p.a.	Quarterly	20-Feb-14	20-Feb-19	15.59%	361,489,818	360,787,600
2014/2019 - 15.00% p.a.	Semi-annually	20-Feb-14	20-Feb-19	15.56%	21,170,082	21,133,958
2014/2019 - 15.50% p.a.	Annually	20-Feb-14	20-Feb-19	15.50%	148,825,267	148,634,872
					531,485,167	530,556,430

**37.4** In 2014 Company further issued 5,000,000 Unsecured Subordinated Redeemable Debentures at the value of Rs.100/- each accumulated to Rs. 500,000,000 with maturity of five years. The debentures are quoted on the Colombo Stock Exchange.

Debenture Category	Interest Payment Frequency	Allotment Date	Maturity date	Effective Annual yield % at 31 March 2017	Amortised Cost at 31st March 2017 Rs.	Amortised Cost at 31st March 2016 Rs.
2015/2020 - 10.25% p.a.	Semi-annually	31-Mar-15	31-Mar-20	10.51%	1,004,364,938	992,399,648
					1,004,364,938	992,399,648

\* Utilisation of funds raised via the Public Debenture issues of Rs. 500Mn and Rs. 1Bn have been disclosed in the " Information on Listed Debentures".

As at 31st March	2017 Rs.	2016 Rs.
<b>38 Current Tax Liabilities</b>		
Balance as at Beginning of the Year	38,687,596	93,290,845
Provision on Current Year Profits	257,660,201	145,750,587
(Over) / Under Provision in Respect of Previous Year	(3,541,543)	1,556,600
Paid and set off during the year	(83,729,503)	(201,910,436)
<b>Balance as at end of the Year</b>	<b>209,076,751</b>	<b>38,687,596</b>
<b>39 Deferred Tax Liabilities</b>		
Deferred Tax Liabilities ( Note 39.3 )	270,783,875	182,865,531
Deferred Tax Assets ( Note 39.4 )	(8,525,324)	(37,147,476)
<b>Net Deferred Tax Liabilities (Note 39.1 )</b>	<b>262,258,551</b>	<b>145,718,055</b>

### 39.1 Recognised Deferred Tax Assets & Liabilities

Deferred tax assets and liabilities are attributable to the following originations of temporary differences;

#### Tableable / (Deductible) Temporary Differences

As at 31st March	2017 Rs.	2016 Rs.
Property, Plant & Equipment	46,299,222	28,308,761
Lease capital Balance	776,583,137	475,822,754
Legal Termination receivables	144,202,904	148,959,663
<b>Taxable Temporary Differences</b>	<b>967,085,263</b>	<b>653,091,178</b>
Retirement Benefit Obligation	(29,716,585)	(27,669,222)
Unclaimed Impairment provisions	(731,005)	(105,000,338)
<b>Total Taxable Temporary Differences (net)</b>	<b>936,637,673</b>	<b>520,421,618</b>
Applicable Tax Rate	28%	28%
<b>Net Deferred Tax Liabilities / (Assets)</b>	<b>262,258,551</b>	<b>145,718,055</b>

# Notes to the Financial Statements

As at 31st March	2017 Rs.	2016 Rs.
<b>39.2 Deferred Tax Expense</b>		
Origination of Deferred tax		
Liability ( Note 39.3 )	87,918,344	94,406,094
Asset ( Note 39.4 )	28,622,151	29,368,939
	116,540,495	123,775,033
<b>Total expense charged / (reversed) to Income Statement</b>	<b>114,503,715</b>	<b>123,051,866</b>
<b>Total expense charged / (reversed) to OCI</b>	<b>2,036,780</b>	<b>723,167</b>

	2017		2016	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
<b>39.3 Deferred Tax Liabilities</b>				
Balance as at 01st April	653,091,178	182,865,531	315,926,557	88,459,437
Originating during the year	313,994,086	87,918,344	337,164,621	94,406,094
<b>Balance as at 31st March</b>	<b>967,085,264</b>	<b>270,783,875</b>	<b>653,091,178</b>	<b>182,865,531</b>
<b>39.4 Deferred Tax Assets</b>				
Balance as at 01st April	132,669,560	37,147,476	237,558,628	66,516,415
Originating / (reversing) during the year	(102,221,969)	(28,622,151)	(104,889,068)	(29,368,939)
<b>Balance as at 31st March</b>	<b>30,447,591</b>	<b>8,525,324</b>	<b>132,669,560</b>	<b>37,147,476</b>

As at 31st March	2017 Rs.	2016 Rs.
<b>40 Other Liabilities</b>		
Other Provisions & Payables (Note 40.1)	228,423,775	153,192,405
Accrued Expenses	50,680,794	37,583,847
	279,104,569	190,776,252
<b>40.1 Other Provisions &amp; Payables</b>		
RMV Payable	6,356,733	4,671,951
Insurance Payable	74,367,776	49,371,790
Stamp Duty Payable	15,104,865	10,760,182
Social Development Fund	6,848,118	-
Other Payables	125,746,283	88,388,482
	228,423,775	153,192,405
<b>41 Retirement Benefit Obligations</b>		
<b>41.1 Retirement Benefit Liability Recognised in Statement of Financial Position</b>		
Balance as at 1st April	27,669,222	22,125,917
Amounts Recognised in Income Statement	9,869,016	8,295,443
Amounts Recognised in OCI	(7,274,213)	(2,582,738)
Payments during the Year	(547,440)	(169,400)
<b>Balance as at 31st March</b>	<b>29,716,585</b>	<b>27,669,222</b>
<b>41.2 Amounts Recognised in Income Statement</b>		
Service cost	7,032,921	6,304,111
Interest on defined benefit obligation	2,836,095	1,991,332
	9,869,016	8,295,443
<b>41.3 Amounts Recognised in OCI</b>		
Remeasurement of retirement benefit obligation arising from changes in assumptions	(8,354,874)	2,039,644
Remeasurement of retirement benefit obligation arising from experience adjustments	1,080,661	(4,622,382)
	(7,274,213)	(2,582,738)

# Notes to the Financial Statements

As at 31st March	2017 Rs.	2016 Rs.
<b>41.4 Defined Benefit Obligation Reconciliation</b>		
Benefit obligation at end of prior year	27,669,222	22,125,917
Company service cost	7,032,921	6,304,111
Interest cost	2,836,095	1,991,332
Payments made during the year	(547,440)	(169,400)
Remeasurement of retirement benefit obligation arising from changes in assumptions	(8,354,874)	2,039,644
Remeasurement of retirement benefit obligation arising from experience adjustments	1,080,661	(4,622,382)
<b>Benefit obligation at end of year</b>	<b>29,716,585</b>	<b>27,669,222</b>

**41.4.1** An actuarial valuation of the employee benefit liability as at 31st March 2017 was carried out by Mr. Piyal S Goonetilleke, FIA, of Messers. Piyal S Goonetilleke and Associates, a firm of professional actuaries.

**41.4.2** 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	2017 Rs.	2016 Rs.
<b>41.5 Assumptions</b>		
Discount Rate	12.50%	10.25%
Salary increment	10.00%	10.00%
<b>Staff Turnover</b>		
<b>20 years</b>	<b>15.00%</b>	<b>15.00%</b>
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

#### 41.6 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 2017.

	Sensitivity effect on Statement of Financial Position (Benefit Obligation) Rs.
1% increase in discount rate	(2,746,357)
1% decrease in discount rate	3,287,876
1% increase in salary increment rate	3,516,695
1% decrease in salary increment rate	(2,977,028)

As at 31st March	2017 Rs.	2016 Rs.
<b>42 Stated Capital</b>		
Ordinary Shares ( Note 42.1 )	287,153,000	287,153,000
No. of shares ( Note 42.2 )	41,550,600	41,550,600
<b>42.1 Movement of Stated Capital</b>		
At the Beginning of the Year	287,153,000	287,153,000
Issued during the Year	-	-
As at the End of the Year	287,153,000	287,153,000
<b>42.2 Movement of no. of Shares</b>		
At the Beginning of the Year	41,550,600	41,550,600
Issued During the Year	-	-
As at the End of the Year	41,550,600	41,550,600

# Notes to the Financial Statements

As at 31st March	2017 Rs.	2016 Rs.
<b>43 Statutory Reserve Fund</b>		
Statutory Reserve Fund (Note 43.1)	528,408,694	383,176,899
	528,408,694	383,176,899

## 43.1 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	2017 Rs.	2016 Rs.
At the Beginning of the Year	383,176,899	280,523,995
Transfers during the Year	145,231,795	102,652,904
As at the End of the Year	528,408,694	383,176,899

As at 31st March	2017 Rs.	2016 Rs.
<b>44 Available For Sale Reserve</b>		
At the Beginning of the Year	(8,009,097)	9,257,510
Net Fair Value Gains / (Losses) on remeasuring Available For Sale Financial Assets	1,174,150	(17,266,607)
As at the End of the Year	(6,834,947)	(8,009,097)

44.1 The Available For Sale Reserve comprises the cumulative net change in fair value of available for sale financial investments until the assets are derecognised or impaired.

As at 31st March	2017 Rs.	2016 Rs.
<b>45 General Reserve</b>		
General Reserve ( Note 45.1 )	7,500,000	7,500,000
	7,500,000	7,500,000

## 45.1 General Reserve

General reserve comprises the amounts appropriated by the Board of Directors as a General Reserve.

As at 31st March	2017	2016
	Rs.	Rs.
<b>46 Retained Earnings</b>		
At the Beginning of the Year	1,259,105,123	929,735,135
Total Comprehensive Income		
Profit for the Year	726,158,974	513,264,521
Other Comprehensive Income	5,237,433	1,859,571
Statutory Reserve Transfer	(145,231,795)	(102,652,904)
Dividends	(103,876,500)	(83,101,200)
At the End of the Year	1,741,393,235	1,259,105,123

#### 47 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".

##### 47.1 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.

##### 47.2 Key Management Personnel (KMP)

KMP are those 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.

##### 47.2.1 Transactions with KMP

###### 47.2.1.1 Compensation of KMP

For the Year Ended 31st March	2017	2016
	Rs.	Rs.
Short term employment benefits	58,833,632	48,790,729
Director fees and expenses	3,930,384	3,930,384

##### 47.2.2 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.

# Notes to the Financial Statements

As at 31st March	2017 Rs.	2016 Rs.
<b>Deposits Held by KMP</b>		
Mr. K.D.D.Perera	320,834,781	-
Mr. K.D.A.Perera	190,189,189	236,453,114
Mr. R.M. Karunaratne	6,500,000	3,500,000
Mr. D.G.N. Perera	75,000	75,000
Mr. K.D.M.S. Piyasiri	124,541	661,921
Mr. S.K.N.C. Jayawardana	985,596	1,608,951
<b>Debentures Invested by KMP</b>		
Mr. K.D.A.Perera	5,500,000	5,500,000
<b>Deposits Held by CFM</b>		
Mrs. P.I.Perera	108,036,487	90,206,026
Ms. E T S Soysa	8,000,000	6,000,000
Mrs. M A F S M Fernando	-	492,875
Mrs. D.K. Rathnayake	23,350,110	12,600,110
<b>Debentures Invested by CFM</b>		
Mrs. D.K. Rathnayake	6,000,000	6,000,000

**472.3 Transactions, Arrangements and Agreements involving Entities which are controlled and / or significantly influenced by the KMP or their CFM**

Name of the Company	Nature of Services	Amount Received/(Paid)		Balance as at 31 March	
		2016/17	2015/16	2017	2016
		Rs.	Rs.	Rs.	Rs.
Pan Asia Banking Corporation PLC	Fixed deposit	(638,716,198)	653,446,540	1,424,622,055	785,905,857
	Call Deposits	300,063,525	(300,063,525)	-	300,063,525
	Current Account	(278,750)	(10,096,883)	10,375,633	10,096,883
	Overdraft	384,009,609	238,776,120	645,575,635	261,566,026
	Term Loan	(166,999,207)	475,838,464	308,839,257	475,838,464
	Reimbursement of Maintenance Expenses	613,992	613,992	-	-
LB Finance PLC	Fixed Deposit - Invested	103,832,571	77,805,196	1,822,004	105,654,575
Vallibel One PLC	Fixed Deposit - Held	25,157,904	823,810,017	1,400,762,162	1,375,604,258
	Debentures	(229,991,377)	(1,451,785)	164,615,678	394,607,055
Alternate Power Systems (Pvt) Ltd	Fixed Deposit - Held	1,730,969	80,187,150	81,918,119	80,187,150
Country Energy (Pvt) Ltd	Fixed Deposit - Held	(88,938,386)	136,667,878	47,729,492	136,667,878
Vallibel Plantation (Pvt) Ltd	Fixed Deposit - Held	(372,439)	1,272,439	900,000	1,272,439
Bansei Securities Co. Ltd	Fixed Deposit - Held	(90,000,000)	90,000,000	-	90,000,000
	Debentures	-	-	250,000,000	250,000,000
La - Forteresse (Pvt) Ltd	Fixed Deposit - Held	(240,000,000)	295,000,000	225,000,000	465,000,000
Vallibel Power Erathna PLC	Fixed Deposit - Held	(70,299,770)	5,193,599	66,958,157	137,257,927
Vallibel Power Kiriwaneliya (Pvt) Ltd	Fixed Deposit - Held	(30,092,462)	20,080,035	-	30,092,462
Lanka Tiles PLC	Fixed Deposit - Held	263,497,534	-	263,497,534	-

**472.4.** 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.

# Notes to the Financial Statements

**47.3** 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	Terms of the Transaction	Date	2017 Rs.	Rationale for entering Transaction
Mr. K.D.D Perera	Fixed Deposits taken for 10.50% for 1 Month Maturity	16-Mar-17	320,834,781	To invest the excess funds
Pan Asia Banking Corporation PLC	Fixed Deposits invested for 12.50% to 13.60% for 3 to 12 Months Maturity	4-Jul-2016 to 11-Oct-2017	1,424,622,055	To invest the excess funds
Pan Asia Banking Corporation PLC	Overdraft facility taken for 15.00% floor rate	01-Apr-2016 to 31-Mar-2017	645,575,635	To utilise for the day to day banking operations
Vallibel One PLC	Fixed Deposits taken from 13.00% to 13.11% for 3 to 6 Months Maturity	12-Nov-2016 to 14-Jul-2017	1,400,762,162	To invest the excess funds
Lanka Tiles PLC	Fixed Deposits taken for 13.50% for 6 Month Maturity	8-Nov-2016 to 18-May-2017	263,497,534	To invest the excess funds

## 48 Contingent Liabilities and Commitments

### 48.1 Capital Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in these Financial Statements amounted to approximately.

As at 31st March	2017 Rs.	2016 Rs.
Approved and contracted for	4,000,000	3,100,000
Approved and not contracted for	-	-
	4,000,000	3,100,000

#### 48.2 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	2017 Rs.	2016 Rs.
Less than one year	73,795,571	61,741,116
Between one and five years	230,005,033	250,619,599
More than five years	31,761,349	79,949,705
	335,561,953	392,310,420

#### 48.3 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. Based on the information currently available, Company is of the opinion that the ultimate resolution of the litigation would not likely have a material impact on the Company.

As at 31st March	2017 Rs.	2016 Rs.
Case pending against the Company	5,000,000	-
	5,000,000	-

# Notes to the Financial Statements

## 49 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 36 to the Financial Statements.

Funding institute	Nature of Assets	Nature of Liability	Value of Assets Pledged Rs.	Included Under
Bank of Ceylon	Leases & Hire Purchases Receivable	Long -term Borrowings	5,016,528,168	Future Rental Receivables
Pan Asia Banking Corporation PLC	Leases & Hire Purchases Receivable	Long -term Borrowings	418,333,334	Future Rental Receivables
NDB Bank	Leases & Hire Purchases Receivable	Working Capital Loan	152,748,658	Future Rental Receivables
Deutsche Bank	Leases & Hire Purchases Receivable	Long-term Borrowings	1,090,701,614	Future Rental Receivables
Cargills Bank	Leases & Hire Purchases Receivable	Long-term Borrowings	202,681,482	Future Rental Receivables
Seylan Bank	Leases & Hire Purchases Receivable	Long-term Borrowings	1,011,616,173	Future Rental Receivables
Seylan Bank	Leases & Hire Purchases Receivable	Overdraft	303,488,527	Future Rental Receivables

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 rental receivable of Leases & Hire purchases, 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 Lease Rental Receivable and Hire Purchase Receivable.

## 50 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.

**50.1 Business Segments**

	Finance Lease		Hire Purchase		Loans & Advances		Investments		Unallocated		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000
<b>For the year ended</b>												
<b>31st March</b>												
<b>Income From</b>												
<b>External Operations</b>												
Interest	2,150,009	1,617,885	280,231	648,827	1,801,246	776,077	365,773	201,997	-	-	4,597,260	3,244,787
Administration Fees	-	-	-	-	-	-	-	-	189,053	109,128	189,053	109,128
Dividends	-	-	-	-	-	-	253	136	-	-	253	136
Other	-	-	-	-	-	-	45,875	10,922	282,253	103,304	328,128	114,225
<b>Total Revenue</b>	<b>2,150,009</b>	<b>1,617,885</b>	<b>280,231</b>	<b>648,827</b>	<b>1,801,246</b>	<b>776,077</b>	<b>411,901</b>	<b>213,055</b>	<b>471,306</b>	<b>212,432</b>	<b>5,114,694</b>	<b>3,468,276</b>
Profit Before Income Tax	-	-	-	-	-	-	-	-	-	-	1,094,781	783,624
Income Tax Expense	-	-	-	-	-	-	-	-	-	-	(368,622)	(270,359)
<b>Profit After Tax</b>											<b>726,159</b>	<b>513,265</b>
<b>Other Information</b>												
<b>As at 31st March</b>												
Segment Assets	11,517,450	9,103,789	793,686	2,124,439	12,466,944	7,251,677	4,584,436	3,401,407	1,322,580	885,865	30,685,096	22,767,176
Segment Liabilities	10,577,341	8,383,998	729,792	1,941,604	11,455,249	6,629,362	4,163,850	3,080,895	1,201,244	802,391	28,127,476	20,838,250
<b>Net Assets</b>	<b>940,109</b>	<b>719,791</b>	<b>63,894</b>	<b>182,835</b>	<b>1,011,695</b>	<b>622,315</b>	<b>420,586</b>	<b>320,512</b>	<b>121,336</b>	<b>83,474</b>	<b>2,557,620</b>	<b>1,928,926</b>

# Notes to the Financial Statements

## 51 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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

#### 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 senior 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).

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.

#### **Non-performing Loans and Leasing and Hire Purchase facilities**

Individually non-performing loans and securities are loans and advances and hire purchase facilities for which the Company determines that there is objective evidence of impairment and those for which it does not expect to collect all principal and interest due according to the contractual terms of the loan / hire purchase facility (ies).

#### **Facilities with renegotiated terms**

Facilities with renegotiated terms are loans and hire purchase & lease facilities that have been restructured due to deterioration in the borrower's financial position and where the Company has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

#### **Allowances for Impairment**

The main components of this allowance are a specific loss component that relates to individually significant exposures and collective impairment component.

#### **Write-off policy**

The Company writes off a loan or a hire purchase and lease facility balance, and any related allowances for impairment losses, when the management of the Company determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

# Notes to the Financial Statements

## Maximum Exposure to Credit Risk

### Credit Quality by Class of Financial Assets

Credit quality of the company based on the class of financial assets is analysed below.

As at 31st March 2017	Neither past due not individually impaired	Past due but not individually impaired	Individually impaired	Total
	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalents	806,206,582	-	-	806,206,582
Placements with Banks and Other Finance Companies	2,243,112,840	-	-	2,243,112,840
Reverse Repurchase Agreements	810,190,562	-	-	810,190,562
Financial Investments - Held for Trading	1,761,300	-	-	1,761,300
Loans and Receivables to Other Customers	7,007,215,940	5,464,106,947	156,977,110	12,628,299,997
Less : Impairment	-	-	-	(161,355,852)
Lease Rental and Hire Purchase Receivables	5,357,186,300	7,170,296,546	312,702,887	12,840,185,733
Less : Impairment	-	-	-	(529,049,961)
Financial Investments - Available for Sale	510,085,388	-	-	510,085,388
Financial Investments - Held to Maturity	1,019,286,080	-	-	1,019,286,080
Other Financial Assets	20,577,870	-	249,868	20,827,738
	17,775,622,862	12,634,403,493	469,929,865	30,189,550,407

Age analysis of Past Due (i.e facilities in arrears of 1day and above) but not individually impaired financial assets	Less than 31 days	31 to 60 days	61 to 90 days	More than 90 days	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Loans and Receivables to Other Customers	2,995,019,980	1,335,103,044	676,512,019	457,471,904	5,464,106,947
Lease Rental and Hire Purchase Receivables	3,639,793,626	2,165,561,159	785,434,813	579,506,948	7,170,296,546
	6,634,813,606	3,500,664,203	1,461,946,832	1,036,978,852	12,634,403,493

As at 31st March 2016	Neither past due not individually impaired Rs.	Past due but not individually impaired Rs.	Individually impaired Rs.	Total Rs.
Cash and Cash Equivalents	519,315,084	-	-	519,315,084
Placements with Banks and Other Finance Companies	1,312,169,859	-	-	1,312,169,859
Reverse Repurchase Agreements	1,679,716,852	-	-	1,679,716,852
Financial Investments - Held for Trading	4,067,378	-	-	4,067,378
Loans and Receivables to Other Customers	4,806,121,077	2,470,414,756	96,047,439	7,372,583,272
Less : Impairment	-	-	-	(120,906,613)
Lease Rental and Hire Purchase Receivables	5,334,347,521	6,151,410,573	279,059,538	11,764,817,632
Less : Impairment	-	-	-	(536,589,288)
Financial Investments - Available for Sale	104,658,351	-	-	104,658,351
Financial Investments - Held to Maturity	300,794,154	-	-	300,794,154
Other Financial Assets	15,968,593	-	-	15,968,593
	14,077,158,869	8,621,825,329	375,106,977	22,416,595,274

Age analysis of Past Due (i.e facilities in arrears of 1 day and above) but not individually impaired financial assets	Less than 31 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	Total Rs.
Loans and Receivables to Other Customers	1,262,149,574	632,491,053	272,177,397	303,596,732	2,470,414,756
Lease Rental and Hire Purchase Receivables	2,680,422,512	1,858,739,243	940,680,931	671,567,887	6,151,410,573
	3,942,572,086	2,491,230,296	1,212,858,328	975,164,619	8,621,825,329

# Notes to the Financial Statements

## Analysis of Risk Concentration

Provincial breakdown for Lease Rental and Hire Purchase Receivables (gross balances) from customers is as follows.

Province	Lease Rental & Hire Purchase Receivables		Loans and Receivables to Other Customers	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
Western	7,820,949,700	6,954,516,290	9,144,872,943	5,560,713,370
Southern	994,854,882	991,912,033	675,518,875	335,864,399
Sabaragamuwa	1,142,119,932	1,130,785,239	769,438,167	385,503,030
Central	517,057,178	517,416,925	383,466,894	193,493,279
Uva	341,942,198	348,651,405	229,425,472	163,558,358
Eastern	20,084,954	13,908,664	13,461,093	7,568,551
North Western	1,373,238,013	1,353,543,371	958,893,957	487,894,315
North Central	626,719,529	446,435,817	446,863,590	234,383,745
Northern	3,219,347	7,647,887	6,359,006	3,604,224
	12,840,185,733	11,764,817,631	12,628,299,997	7,372,583,271

### (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. 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.

## Exposure to Liquidity Risk

Exposure to Liquidity Risk is monitored through the Liquid Asset Ratio (LAR) of the Company.

As at 31st March	2017	2016
<b>Liquid Asset Ratio (LAR)</b>		
Average for the year	15.79%	15.56%
Maximum for the year	20.85%	22.29%
Minimum for the year	12.45%	10.77%

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	2017 Rs.	2016 Rs.
Cash in Hand	53,424,334	39,952,110
Balances in Current Accounts free from lien	27,270,710	12,952,669
Deposits in Commercial Banks free from lien	1,825,000,000	1,050,000,000
Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any lien or charge	1,213,015,145	295,216,271
Any Other Approved Securities	810,000,000	1,679,361,208
<b>Total liquid assets as at end of March</b>	<b>3,928,710,189</b>	<b>3,077,482,258</b>

# Notes to the Financial Statements

An analysis of the interest bearing assets and liabilities employed by the company as at 31st March 2017, 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	1,067,558,233	1,174,288,612	1,265,995	-	-	2,243,112,840
Reverse Repurchase Agreements	810,190,562		-	-	-	810,190,562
Financial Investments - Available for Sale	15,604,900	196,575,123	195,230,072	102,675,293	-	510,085,388
Financial Investments - Held to Maturity	299,700,303	719,585,777	-	-	-	1,019,286,080
Loans and Receivables to Other Customers*	2,398,044,015	5,293,430,870	3,556,942,489	1,217,593,438	933,333	12,466,944,145
Finance Lease Receivables*	1,287,209,205	3,048,063,520	5,492,035,599	1,690,141,609		11,517,449,933
Hire Purchase Receivables*	151,891,759	312,561,521	322,654,039	6,578,520	-	793,685,839
<b>Total Interest Bearing Assets</b>	<b>6,030,198,977</b>	<b>10,744,505,423</b>	<b>9,568,128,194</b>	<b>3,016,988,860</b>	<b>933,333</b>	<b>29,360,754,787</b>

Percentage 2017	20%	37%	33%	10%	0%
Percentage 2016	20%	32%	36%	12%	0%

<b>Interest Bearing Liabilities</b>						
Bank Overdrafts	1,487,193,561	-	-	-	-	1,487,193,561
Interest Bearing Borrowings	765,842,002	1,799,403,053	3,033,995,928	444,151,002	-	6,043,391,985
Subordinated Term Debts	44,742,672	38,709,834	1,617,013,276	-	-	1,700,465,782
Deposits Due to Customers - Fixed Deposits	7,652,373,566	6,265,104,272	2,889,568,676	426,061,949		17,233,108,463
Deposits Due to Customers - Savings Deposits	14,746,396	-	-	-	-	14,746,396
Deposits Due to Customers - Certificate of Deposits	313,577,239	246,871,521	55,557,853	-	-	616,006,613
<b>Total Interest Bearing Liabilities</b>	<b>10,278,475,436</b>	<b>8,350,088,680</b>	<b>7,596,135,733</b>	<b>870,212,951</b>	<b>-</b>	<b>27,094,912,800</b>

Percentage 2017	38%	31%	28%	3%	0%
Percentage 2016	38%	34%	19%	9%	0%

\* Loans and Receivables to Other Customers and Lease Rental & Hire Purchase Receivables are reported net of impairment.

**(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. Overall authority for market risk is vested in Integrated Risk Management Committee (IRMC) of the Company.

**Exposure to Market Risk - Trading and Non - Trading Portfolios**

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

	Market Risk Measurement			Market Risk Measurement		
	Carrying Amount as at 31st March 2017	Trading Portfolios	Non -Trading Portfolios	Carrying Amount as at 31st March 2016	Trading Portfolios	Non -Trading Portfolios
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets subject to Market Risk</b>						
Cash and Cash Equivalents	806,206,582	-	806,206,582	519,315,084	-	519,315,084
Placements with Banks and Other Finance Companies	2,243,112,840	-	2,243,112,840	1,312,169,859	-	1,312,169,859
Reverse Repurchase Agreements	810,190,562	-	810,190,562	1,679,716,852	-	1,679,716,852
Financial Investments - Held for Trading	1,761,300	1,761,300	-	4,067,378	4,067,378	-
Loans and Receivables to Other Customers	12,466,944,145	-	12,466,944,145	7,251,676,658	-	7,251,676,658
Lease Rental and Hire Purchase Receivables	12,311,135,772	-	12,311,135,772	11,228,228,344	-	11,228,228,344
Financial Investments - Available for Sale	510,085,388	-	510,085,388	104,658,351	-	104,658,351
Financial Investments - Held to Maturity	1,019,286,080	-	1,019,286,080	300,794,154	-	300,794,154
Other Financial Assets	20,827,738	-	20,827,738	15,968,593	-	15,968,593
	30,189,550,407	1,761,300	30,187,789,107	22,416,595,273	4,067,378	22,412,527,895
<b>Liabilities subject to Market Risk</b>						
Bank Overdrafts	1,487,193,561	-	1,487,193,561	1,224,665,038	-	1,224,665,038
Deposits due to Customers	17,863,861,472	-	17,863,861,472	14,804,037,141	-	14,804,037,141
Interest bearing Borrowings	6,043,391,985	-	6,043,391,985	2,243,116,105	-	2,243,116,105
Subordinated Term Debts	1,700,465,782	-	1,700,465,782	1,917,563,133	-	1,917,563,133
	27,094,912,800	-	27,094,912,800	20,189,381,417	-	20,189,381,417

# Notes to the Financial Statements

## Interest Rate Risk

Interest Rate Risk arises due to fluctuations in the interest rate resulting in adverse impact to future cash flows or the fair values of financial instruments of the Company.

## Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL)

As at 31st March	2017 Rs.	2016 Rs.
Rate Sensitive Assets (RSA)	29,360,754,787	21,877,244,218
Rate Sensitive Liabilities (RSL)	27,094,912,800	20,189,381,418
GAP (RSA-RSL)	2,265,841,987	1,687,862,800

## Equity Risk

Equity risk is the risk that company's investments in equity shares will depreciate because of stock market dynamics causing company to lose money.

## 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 2017 Rs.	Lowest Market Value Rs.	Effect to the Comprehensive Income if the market price drops to the lowest value Rs.
Bank , Finance & Insurance	1,761,300	1,081,500	679,800
Diversified Holdings	-	-	-
<b>Total</b>	<b>1,761,300</b>	<b>1,081,500</b>	<b>679,800</b>

	Market Value as at 31st March 2016 Rs.	Lowest Market Value Rs.	Effect to the Comprehensive Income if the market price drops to the lowest value Rs.
Bank , Finance & Insurance	1,864,300	1,081,500	782,800
Diversified Holdings	2,203,078	1,468,718	734,360
<b>Total</b>	<b>4,067,378</b>	<b>2,550,218</b>	<b>1,517,160</b>

## 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 behaviour. 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.

# Notes to the Financial Statements

## Capital Management

The Regulatory Capital requirements for the Finance Companies are set by the Central Bank of Sri Lanka.

The details of the computation of risk weighted assets, capital and the ratios of the Company are given below:

## Capital Adequacy

### Total Risk Weighted Assets Computation

As at 31st March	Balance		Risk Weight Factor %	Risk Weighted Balance	
	2017 Rs.	2016 Rs.		2017 Rs.	2016 Rs.
<b>Assets</b>					
Cash and Cash Equivalents	806,206,582	519,315,084	0%	-	-
Placements with Banks and Other Finance Companies	2,243,112,840	1,312,169,859	20%	448,622,568	262,433,972
Reverse Repurchase Agreements	810,190,562	1,679,716,852	0%	-	-
Financial Investments - Held for Trading (excluding items deducted from the total Capital)	1,761,300	4,067,378	100%	1,761,300	4,067,378
<b>Financial Investments - Available for Sale</b>					
Government of Sri Lanka Treasury Bonds	509,881,588	104,454,551	0%	-	-
Unquoted Equities	203,800	203,800	100%	203,800	203,800
Financial Investments - Held to Maturity	1,019,286,080	300,794,154	0%	-	-
<b>Loans and Receivables :</b>					
Loans against Fixed Deposits	377,656,166	277,329,779	0%	-	-
Loans against Gold and Gold Jewellery (Less than 10% in Total Advances)	897,061,859	521,994,269	0%	-	-
Loans and Receivables to Other Customers	11,192,226,120	6,452,352,610	100%	11,192,226,120	6,452,352,610
Lease Rental and Hire Purchase Receivables	12,311,135,772	11,228,228,344	100%	12,311,135,772	11,228,228,344
Other Financial Assets	20,827,738	15,968,593	100%	20,827,738	15,968,593
Other Assets	161,618,964	114,516,593	100%	161,618,964	114,516,593
Property, Plant and Equipment	315,103,615	194,787,387	100%	315,103,615	194,787,387
Intangible Assets	10,297,779	4,129,612	100%	10,297,779	4,129,612
Deferred Tax Assets	8,525,324	37,147,476	100%	8,525,324	37,147,476
<b>Total Risk Weighted Assets</b>	<b>30,685,096,089</b>	<b>22,767,176,341</b>		<b>24,470,322,981</b>	<b>18,313,835,765</b>

Total Capital Base Computation

	2017 Rs.	2016 Rs.
<b>Tier I : Core Capital</b>		
Stated Capital	287,153,000	287,153,000
Statutory Reserve Fund	528,408,694	383,176,899
General Reserve	7,500,000	7,500,000
Retained Earnings	1,734,558,289	1,259,105,123
<b>Total Tier I Capital</b>	<b>2,557,619,983</b>	<b>1,936,935,022</b>
<b>Tier II : Supplementary Capital</b>		
Eligible Approved Unsecured Subordinated Term Debt	800,000,000	968,467,511
<b>Total Eligible Tier II Capital</b>	<b>800,000,000</b>	<b>968,467,511</b>
<b>Total Capital</b>	<b>3,357,619,983</b>	<b>2,905,402,533</b>
<b>Deductions</b>		
Investments in capital of other banks	-	-
<b>Capital Base</b>	<b>3,357,619,983</b>	<b>2,905,402,533</b>
<b>Computation of Capital Adequacy Ratios</b>		
<b>Core Capital Ratio (Minimum Requirement 5%)</b>	<b>10.45%</b>	<b>10.58%</b>
Core Capital x 100		
Risk Weighted Assets		
<b>Total Risk Weighted Capital Ratio (Minimum Requirement 10%)</b>	<b>13.72%</b>	<b>15.86%</b>
Capital Base x 100		
Risk Weighted Assets		

# Notes to the Financial Statements

## 52 Events Occurring After the Reporting Period

52.1 Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in the Financial Statements other than disclosed below.

Directors have recommended a dividend of Rs. 3.00 per share for the financial year ended 31st March 2017 subject to the approval of Central Bank of Sri Lanka.

## 53 Comparative Figures

The presentation and classification of the following material items in these financial statements are amended to ensure the comparability with the current year.

As at 31st March 2016	Note	As disclosed previously Rs.	Current Presentation Rs.	Adjustment Rs.
<b>Income Statement</b>				
Interest Income	53.1	3,241,795,226	3,244,786,741	2,991,515
Other Operating Income	53.1 & 53.2	167,294,596	114,980,457	(52,314,139)
Fee and Commission Income	53.2	59,805,642	109,128,266	49,322,624
Net Gain / (Loss) from Trading	53.3	(618,563)	(639,083)	(20,520)
Gain from Financial Investments	53.3	-	20,520	20,520

53.1 Amortised Staff Cost - Interest Income of Rs. 2,991,515 classified in 'Other Operating Income' has been reclassified to 'Interest Income'.

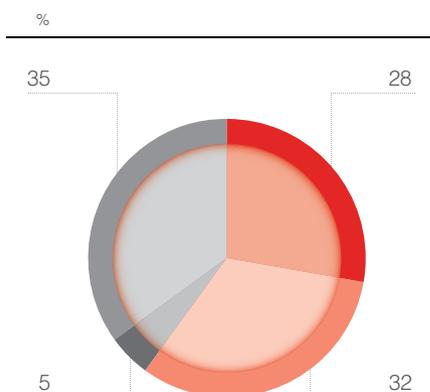
53.2 Credit related Fee and Commission Income of Rs. 49,322,624 classified in 'Other Operating Income' has been reclassified to 'Fee and Commission Income'.

53.3 Dividend Income - Unquoted equities of Rs. 20,520 classified in 'Net Gain / (Loss) from Trading' has been reclassified to 'Gain from Financial Investments'.

# Value Added Statement

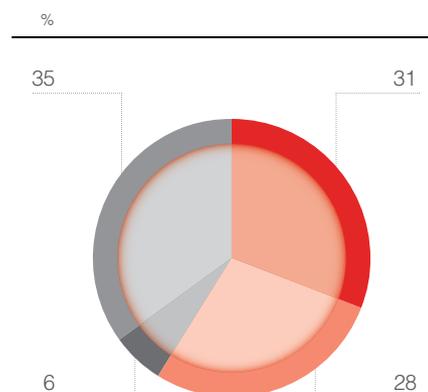
	2017		2016	
	Rs.	%	Rs.	%
<b>Value Added</b>				
Income from Interest Related Activities	4,597,260,244	90%	3,244,786,741	94%
Income from Other Activities	517,434,238	10%	223,490,160	6%
	5,114,694,482	100%	3,468,276,901	100%
<b>Deduct:</b>				
Depositors & Lenders	2,586,588,604	81%	1,558,667,730	75%
Cost of Sales & Services	560,356,171	18%	436,836,950	22%
Impairment Charges for Loans and other losses	33,041,325	1%	70,182,156	3%
	3,179,986,100	100%	2,065,686,836	100%
<b>Total Value Added</b>	<b>1,934,708,382</b>		<b>1,402,590,065</b>	
<b>Distribution of Value Added</b>				
To Employees as Remuneration	549,309,630	28%	436,060,020	31%
To Government as Taxation	598,312,215	32%	398,471,056	28%
To Providers of Capital as Dividend	103,876,500	5%	83,101,200	6%
<b>To Expansion &amp; Growth</b>				
Depreciation & Amortisation	60,927,563	3%	54,794,468	4%
Retained Profits	622,282,474	32%	430,163,321	31%
<b>Total Distribution of Value Added</b>	<b>1,934,708,382</b>	<b>100%</b>	<b>1,402,590,065</b>	<b>100%</b>

Value Added Statement - 2017



- To Employees as Remuneration
- To Government as Taxation
- To Providers of Capital as Dividend
- To Expansion & Growth

Value Added Statement - 2016

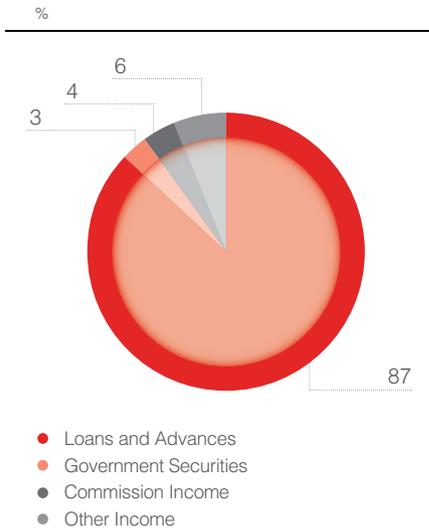


- To Employees as Remuneration
- To Government as Taxation
- To Providers of Capital as Dividend
- To Expansion & Growth

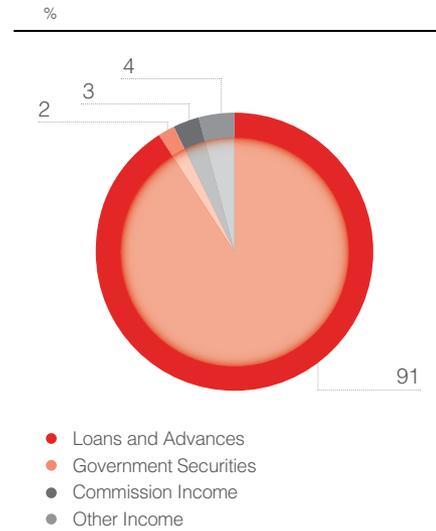
# Sources and Utilisation of Income

For the year ended 31st March	Based on Financial Statements Prepared under SLFRS									
	2017		2016		2015		2014		2013	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
<b>SOURCES OF INCOME</b>										
Loans and Advances	4,464,179,980	87.28	3,165,917,337	91.28	2,735,721,353	94.46	2,397,529,201	93.27	1,719,695,150	91.50
Government Securities	133,080,264	2.60	78,869,404	2.27	64,024,522	2.21	54,271,611	2.11	30,955,158	1.65
Commission Income	189,052,650	3.70	109,128,266	3.15	50,314,825	1.74	43,082,243	1.68	31,255,381	1.66
Other Income	328,381,588	6.42	114,361,894	3.30	46,126,678	1.59	75,741,298	2.94	97,490,794	5.19
<b>Total</b>	<b>5,114,694,482</b>	<b>100</b>	<b>3,468,276,901</b>	<b>100</b>	<b>2,896,187,378</b>	<b>100</b>	<b>2,570,624,353</b>	<b>100</b>	<b>1,879,396,483</b>	<b>100</b>
<b>UTILISATION OF INCOME</b>										
<b>To Employees</b>										
Personnel Expenses	549,309,630	10.74	436,060,020	12.57	336,574,216	11.62	251,662,381	9.79	131,946,471	7.02
<b>To Suppliers</b>										
Interest Paid	2,586,588,604	50.57	1,558,667,730	44.94	1,344,337,892	46.42	1,340,464,712	52.15	1,008,844,798	53.68
Other Expenses	560,356,171	10.96	436,836,950	12.60	295,865,994	10.22	238,823,823	9.29	192,110,480	10.22
Depreciation & Amortisation	60,927,563	1.19	54,794,468	1.58	47,263,171	1.63	40,009,172	1.56	26,946,852	1.43
Impairment charge for Loans & other losses	33,041,325	0.65	70,182,156	2.02	239,203,374	8.26	210,654,141	8.19	51,678,935	2.75
<b>To Government</b>										
Value Added Tax and Other Taxes	229,689,842	4.49	128,112,003	3.69	74,302,462	2.57	46,006,899	1.79	38,748,927	2.06
Income Tax	368,622,373	7.21	270,359,053	7.80	185,853,667	6.42	139,092,992	5.41	134,646,817	7.16
<b>To Shareholders</b>										
Dividends	103,876,500	2.03	83,101,200	2.40	41,550,600	1.43	62,325,900	2.42	41,550,600	2.21
Retained Profit	622,282,474	12.17	430,163,321	12.40	331,236,002	11.44	241,584,333	9.40	252,922,603	13.46
<b>Total</b>	<b>5,114,694,482</b>	<b>100.0</b>	<b>3,468,276,901</b>	<b>100.0</b>	<b>2,896,187,378</b>	<b>100</b>	<b>2,570,624,353</b>	<b>100</b>	<b>1,879,396,483</b>	<b>100</b>

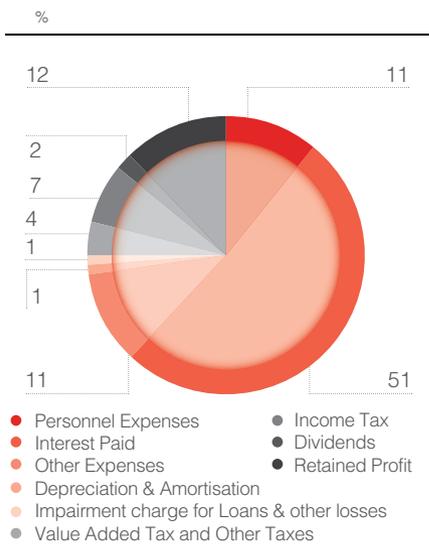
### Sources of Income - 2017



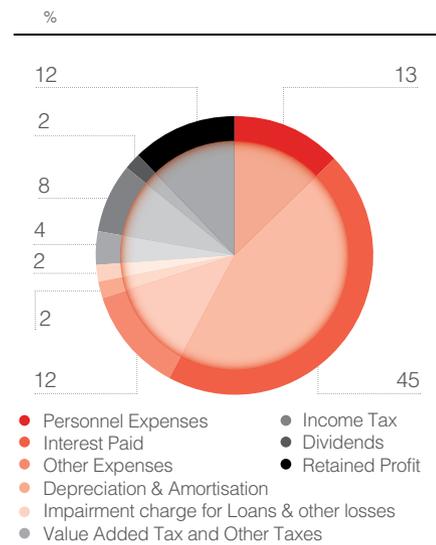
### Sources of Income - 2016



### Utilisation of Income - 2017



### Utilisation of Income - 2016



# 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 2017 were 1,984.

## Distribution of Shareholding As At 31st March

Shares	2017				2016			
	No of Shareholders	%	No of Shares	%	No of Shareholders	%	No of Shares	%
Up to 1,000	1,439	72.53%	466,063	1.12%	1,494	70.77%	497,449	1.20%
1,001-10,000	420	21.17%	1,382,486	3.33%	488	23.12%	1,669,891	4.02%
10,001-100,000	104	5.24%	3,165,851	7.62%	110	5.21%	3,329,798	8.01%
100,001-1,000,000	18	0.91%	3,649,391	8.78%	16	0.76%	3,469,583	8.35%
Over 1,000,000	3	0.15%	32,886,809	79.15%	3	0.14%	32,583,879	78.42%
	1,984	100.00%	41,550,600	100.00%	2,111	100.00%	41,550,600	100.00%

## Categories of Shareholders

Type of Investor	2017			2016		
	No of Holders	No of Shares	%	No of Holders	No of Shares	%
Local Individuals	1,864	9,452,014	22.75%	1,997	9,184,664	22.10%
Local Institutions	112	31,805,944	76.55%	106	32,076,966	77.20%
Foreign Individuals	7	251,143	0.60%	8	288,970	0.70%
Foreign Institutions	1	41,499	0.10%	-	-	-
	1,984	41,550,600	100.00%	2,111	41,550,600	100.00%

## 20 Major Shareholders of the Company

Shareholders	As at 31st March 2017		As at 31st March 2016	
	No of Shares	%	No of Shares	%
Vallibel Investments (Pvt) Limited	30,277,000	72.87%	30,277,000	72.87%
Mr. K D A Perera	1,359,809	3.27%	1,266,879	3.05%
Mr. R F T Perera	1,250,000	3.01%	1,040,000	2.50%
Mr. S B Rangamuwa	880,092	2.12%	860,092	2.07%
Union Bank of Colombo PLC/Mr. Sithampalam Abishek	289,157	0.70%	289,157	0.70%
Mr. C S J Perera	285,200	0.69%	284,860	0.69%
Mr. V R Kathiragamattamby	205,000	0.49%	205,000	0.49%
Mr. H Beruwalage	202,800	0.49%	202,800	0.49%
Mr. B A R Dissanayake	200,500	0.48%	200,500	0.48%
Mrs. K I A Hewage	200,000	0.48%	200,000	0.48%
Mr. D S Panditha	153,798	0.37%	50,000	0.12%
Mrs. S P Gunasekera	149,166	0.36%	113,514	0.27%
Mr. F J P Raj	148,778	0.36%	115,100	0.28%
Mr. N Balasingam	134,900	0.32%	134,900	0.32%
Mr. A Sithampalam	130,605	0.31%	130,605	0.31%
Code-Gen International (Pvt) Ltd	125,000	0.30%	200,000	0.48%
Mr. H A Van Starrex	119,420	0.29%	83,883	0.20%
Mr. R Udalagama	113,022	0.27%	114,500	0.28%
Mr. W M A B Walisundara	107,655	0.26%	102,955	0.25%
Mr. R Gautam	103,461	0.25%	100,000	0.24%
	36,435,363	87.69%	35,971,745	86.57%
Others	5,115,237	12.31%	5,578,855	13.43%
Total	41,550,600	100.00%	41,550,600	100.00%

## Public holding

The percentage of shares held by the public being 21.58% comprising of 1,979 shareholders as at 31st March 2017.

Market Prices		Quarter Ended				Year Ended	
		30.06.2016	30.09.2016	31.12.2016	31.03.2017	31.03.2017	31.03.2016
Highest	Rs.	71.60	65.80	65.00	62.00	71.60	73.00
Lowest	Rs.	56.00	57.00	58.50	55.20	55.20	45.00
Closing	Rs.	57.40	62.00	60.40	58.50	58.50	53.70

# Information on Listed Debentures

## Market Values of Listed Debentures

Debentures 2014/2019	Highest		Lowest		Period End	
	2017	2016	2017	2016	2017	2016
Fixed - 14.75%	102.00	104.21	100.00	100.18	102.00	104.21
Fixed - 15.00%	N/T	N/T	N/T	N/T	N/T	N/T
Fixed - 15.50%	N/T	106.00	N/T	106.00	N/T	106.00

Debentures 2015/2020	Highest		Lowest		Period End	
	2017	2016	2017	2016	2017	2016
Fixed - 10.25%	99.28	95.73	97.73	95.73	99.28	95.73

## Interest Rates

Debentures 2014/2019	2017		2016	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed - 14.75%	14.75%	15.59%	14.75%	15.59%
Fixed - 15.00%	15.00%	15.56%	15.00%	15.56%
Fixed - 15.50%	15.50%	15.50%	15.50%	15.50%

Debentures 2015/2020	2017		2016	
	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

	2017	2016
5 Year Treasury Bond	12.89%	11.42%

## Interest Yield and Yield to Maturity

Debentures 2014/2019	Fixed - 14.75%		Fixed - 15.00%		Fixed - 15.50%	
	2017	2016	2017	2016	2017	2016
Interest Yield	14.46%	14.15%	15.00%	15.00%	15.50%	14.62%
Yield to Maturity of last trade	13.80%	13.00%	N/T	N/T	N/T	12.91%

Debentures 2015/2020	Fixed - 10.25%	
	2017	2016
Interest Yield	10.32%	10.71%
Yield to Maturity of last trade	10.48%	11.50%

\* N/A - Not Applicable and N/T - Not Traded

## Ratios

	2017	2016
Debt to Equity Ratio (%)	303%	216%
Interest Cover (Times)	1.51	1.58
Liquid Asset Ratio (%) - Minimum Required 10%	20.85%	19.11%

## Utilisation of Funds Raised Via Capital Market

Debenture Issue	Objective Number	Objective as Per Prospectus	Amount Allocated as per Prospectus	Proposed Date of Utilization as Per Prospectus	Amount Allocated From Proceeds	% of Total Proceeds	Amounts Utilized	% of Utilization Against Allocation	Clarification if not Fully Utilized Including Where the Funds are Invested
Rs. 500 Mn	i	To Expand and strengthen the capital base of the Company	Rs. 500 Mn	From 11th February 2014 onwards	Rs. 500 Mn	100%	Rs. 500 Mn	100%	N/Ap
	ii	Diversify the funding mix of the Company							
	iii	To minimize the interest rate risk and gap exposure of the Company							
Rs. 1,000 Mn	i	To Expand and strengthen the capital base of the Company	Rs. 1,000 Mn	From 26th March 2015 onwards	Rs. 1,000 Mn	100%	Rs. 1,000 Mn	100%	N/Ap
	ii	To minimize the interest rate risk							

# Ten Year Summary

## Based on Financial Statements prepared under SLFRS

For the year ended 31st March	2017 Rs.	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
<b>Income Statement</b>						
Gross Income	5,114,694,482	3,468,276,901	2,896,187,378	2,570,624,353	1,879,396,483	1,210,633,975
Interest Income	4,597,260,244	3,244,786,741	2,799,745,875	2,451,800,812	1,791,914,232	1,111,638,186
Interest Expense	2,586,588,604	1,558,667,730	1,344,337,892	1,340,464,712	1,008,844,798	536,824,726
Net Interest Income	2,010,671,640	1,686,119,011	1,455,407,983	1,111,336,100	783,069,434	574,813,460
Net Fee and Commission Income	189,052,650	109,128,266	50,314,825	43,082,243	31,255,381	21,941,300
Other Operating Income	328,381,588	114,361,894	46,243,968	75,741,298	56,226,870	77,054,489
Operating Expenses and provisions	1,203,634,689	997,873,594	918,906,755	741,149,517	402,623,499	285,785,791
Profit Before Taxation	1,324,471,189	911,735,577	632,942,731	489,010,124	467,928,186	388,023,458
Provision for Taxation	598,312,215	398,471,056	260,156,129	185,099,891	173,395,744	156,847,326
<b>Net Profit</b>	<b>726,158,974</b>	<b>513,264,521</b>	<b>372,786,602</b>	<b>303,910,233</b>	<b>294,532,442</b>	<b>231,176,132</b>
<b>As at 31st March</b>						
	<b>2017 Rs.</b>	<b>2016 Rs.</b>	<b>2015 Rs.</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>	<b>2012 Rs.</b>
<b>Assets</b>						
Cash and Cash Equivalents	806,206,582	519,315,084	357,722,928	311,612,928	239,915,519	79,321,134
Placements with Bank's and Other Finance Companies	2,243,112,840	1,312,169,859	1,768,499,428	1,146,244,786	698,087,988	210,974,451
Reverse Repurchase Agreements	810,190,562	1,679,716,852	1,353,477,948	112,017,262	-	-
Financial Investments - Held for Trading	1,761,300	4,067,378	4,822,336	5,101,684	14,329,011	12,283,156
Loans and Receivables to Finance Companies	-	-	-	-	16,472,400	16,472,400
Loans and Receivables to Other Customers	12,466,944,145	7,251,676,658	3,307,495,086	1,149,653,055	631,715,458	305,257,922
Lease Rental and Hire Purchase Receivables	12,311,135,772	11,228,228,344	9,261,379,875	8,788,528,303	7,152,325,616	5,518,414,888
Financial Investments - Available for Sale	510,085,388	104,658,351	120,529,779	113,965,232	203,800	203,800
Financial Investments - Held to Maturity	1,019,286,080	300,794,154	296,296,416	612,634,968	281,718,777	251,392,472
Other Financial Assets	20,827,738	15,968,593	11,806,411	7,912,643	6,343,169	17,656,274
Property, Plant and Equipment	315,103,615	194,787,387	181,172,558	127,325,987	116,748,120	105,792,958
Intangible Assets	10,297,779	4,129,612	4,188,589	4,355,878	5,997,534	-
Deffered Tax Assets	8,525,324	37,147,476	66,516,415	33,785,749	2,142,794	1,092,818
Other Assets	161,618,964	114,516,593	159,599,520	165,575,145	137,949,156	155,102,646
<b>Total Assets</b>	<b>30,685,096,089</b>	<b>22,767,176,341</b>	<b>16,893,507,289</b>	<b>12,578,713,620</b>	<b>9,303,949,343</b>	<b>6,673,964,919</b>

As at 31st March	2017 Rs.	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
<b>Liabilities</b>						
Bank Overdrafts	1,487,193,561	1,224,665,038	463,536,788	233,878,618	360,101,982	82,765,639
Rental Received in Advance	243,881,527	208,870,398	170,421,167	136,928,230	164,624,026	76,741,268
Deposits due to Customers	17,863,861,472	14,804,037,141	12,162,096,690	9,299,977,850	6,268,210,181	4,024,406,195
Interest bearing Borrowings	6,043,391,985	2,243,116,105	299,522,795	542,516,837	951,201,653	1,399,833,703
Subordinated Term Debts	1,700,465,782	1,917,563,133	1,859,653,357	898,088,784	399,255,587	232,764,384
Current Tax Liabilities	209,076,751	38,687,596	93,290,845	88,294,895	41,938,998	52,416,626
Deferred Tax Liabilities	270,783,875	182,865,531	88,459,437	74,288,962	65,089,176	40,018,009
Other Liabilities	279,104,569	190,776,252	220,230,653	111,124,087	109,699,079	76,721,663
Retirement Benefit Obligations	29,716,585	27,669,222	22,125,917	12,872,166	7,652,838	3,902,921
<b>Total Liabilities</b>	<b>28,127,476,106</b>	<b>20,838,250,416</b>	<b>15,379,337,649</b>	<b>11,397,970,429</b>	<b>8,367,773,520</b>	<b>5,989,570,408</b>
<b>Shareholders' Funds</b>						
Stated Capital	287,153,000	287,153,000	287,153,000	287,153,000	287,153,000	287,153,000
Statutory Reserves	528,408,694	383,176,899	280,523,995	333,906,930	237,580,979	130,551,881
Available For Sale Reserve	(6,834,947)	(8,009,097)	9,257,510	4,054,987	-	-
General Reserve	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
Retained Earnings	1,741,393,235	1,259,105,123	929,735,134	548,128,273	403,941,844	259,189,630
<b>Total Shareholders' Funds &amp; Total Liabilities</b>	<b>30,685,096,089</b>	<b>22,767,176,341</b>	<b>16,893,507,289</b>	<b>12,578,713,619</b>	<b>9,303,949,343</b>	<b>6,673,964,919</b>

For the year ended 31st March	2017	2016	2015	2014	2013	2012
<b>Information on Ordinary Shares</b>						
Earnings per Share (Rs.)	17.48	12.35	8.97	7.31	7.09	5.56
Net Assets per Share (Rs.)	61.55	46.42	36.44	28.42	22.53	16.47
Interest Cover (Times)	1.51	1.58	1.47	1.36	1.46	1.72
Dividend Per Share (Rs.)	2.50	2.00	1.00	1.50	1.00	0.50
Dividend Payout (%)	20.24	22.29	13.67	21.16	17.97	19.29
Market Value Per Share	58.50	53.70	45.00	29.70	28.30	38.80
PE Ratio (Times)	3.35	4.35	5.02	4.06	3.99	6.97
Return on Shareholders Funds (%)	28.39	26.61	24.62	25.74	31.46	33.78
Liquid Assets as a % of Deposits (%)	29.53	26.46	32.04	24.69	19.46	13.46
Growth in Income (%)	47.47	19.75	12.66	36.78	55.24	89.26
Growth in Interest Expenses (%)	65.95	15.94	0.29	32.87	87.93	99.15
Growth in Other Expenses (%)	20.62	8.59	23.98	84.08	40.88	106.06
Growth in Profit After Tax (%)	41.48	37.68	22.66	3.18	27.41	114.64
Growth in Advances (%)	34.08	47.03	26.47	27.67	33.27	78.82
Growth in Deposits (%)	20.67	21.72	30.78	48.37	55.75	50.06
Growth on Shareholders' Funds (%)	32.59	27.39	28.24	26.12	36.79	30.73

# Ten Year Summary

## Based on Financial Statements prepared under SLAS

For the year ended 31st March	2011 Rs.	2010 Rs.	2009 Rs.	2008 Rs.
<b>Income Statement</b>				
Gross Income	639,660,503	426,093,169	376,368,752	125,954,756
Interest Income	595,382,652	413,871,000	364,278,447	120,993,344
Interest Expenditure	269,555,960	233,952,166	236,607,948	70,323,132
Net Interest Income	325,826,692	179,918,834	127,670,499	50,670,212
Other Operating Income	44,277,851	12,222,169	12,090,305	4,961,412
Operating Expenditure	138,687,765	84,787,295	66,939,687	29,280,508
Profit Before Taxation	231,416,778	107,353,708	72,821,117	26,351,116
Provision For Taxation	123,710,483	65,468,118	40,628,587	14,884,736
<b>Net Profit</b>	<b>107,706,295</b>	<b>41,885,590</b>	<b>32,192,530</b>	<b>11,466,380</b>
<b>As at 31st March</b>				
	<b>2011 Rs.</b>	<b>2010 Rs.</b>	<b>2009 Rs.</b>	<b>2008 Rs.</b>
<b>Assets</b>				
Liquid Assets	356,060,756	172,712,628	284,252,629	116,588,050
Investments in Dealing Securities	4,668,076	445,727	314,117	2,076,794
Investments in Other Securities	15,743,800	15,540,000	10,540,000	-
Advances	3,256,747,669	1,551,895,858	1,109,195,424	771,532,338
Other Assets	177,478,281	44,531,957	42,515,016	21,175,310
Property, Plant & Equipment	78,882,526	12,765,533	9,701,836	10,149,862
<b>Total Assets</b>	<b>3,889,581,108</b>	<b>1,797,891,703</b>	<b>1,456,519,022</b>	<b>921,522,354</b>
<b>Liabilities</b>				
Bank Overdrafts	49,660,559	87,044,952	12,369,889	10,102,229
Borrowings	449,322,933	169,214,636	310,382,379	271,687,872
Deposits From Customers	2,596,232,472	1,139,477,444	820,547,319	473,682,925
Other Liabilities	326,229,359	135,349,881	80,530,880	50,553,303
<b>Total Liabilities</b>	<b>3,421,445,323</b>	<b>1,531,086,913</b>	<b>1,223,830,467</b>	<b>806,026,329</b>
<b>Shareholders' Funds</b>				
Stated Capital/Share Capital	287,153,000	172,753,000	172,753,000	87,753,000
Reserves	180,982,785	94,051,790	59,935,555	27,743,025
<b>Total Shareholders' Funds &amp; Total Liabilities</b>	<b>3,889,581,108</b>	<b>1,797,891,703</b>	<b>1,456,519,022</b>	<b>921,522,354</b>

For the year ended 31 March	2011	2010	2009	2008
<b>Information on Ordinary Shares</b>				
Earnings per Share (Rs.)	2.63	1.34	2.32	1.31
Net Assets per Share (Rs.)	11.27	8.56	14.94	13.16
Interest Cover (Times)	1.86	1.46	1.31	1.37
Dividend per Share (Rs.)	1.00	0.50	-	-
Dividend Payout (%)	37.31	21.55	-	-
Market Value Per Share	49.50	-	-	-
PE Ratio (Times)	18.82	-	-	-
<b>Ratios (%)</b>				
Return on Shareholders Fund (%)	23.01	15.70	13.84	9.93
Liquid Assets as a % of Deposits (%)	13.71	15.16	34.64	24.61
Growth in Income (%)	50.12	13.21	198.81	728.18
Growth in Interest Expenses (%)	15.22	(1.12)	236.46	2,017.42
Growth in Other Expenses (%)	63.57	26.66	128.62	343.94
Growth in Profit After Tax (%)	157.14	30.11	180.76	191.65
Growth in Advances (%)	109.86	39.91	43.77	2,195.85
Growth in Deposits (%)	127.84	38.87	73.23	1,400.75
Growth on Shareholders' Fund (%)	75.46	14.66	101.47	11.02

# Branch Network

<b>Branch /Collection</b>				
<b>Center</b>	<b>Address</b>	<b>Telephone</b>	<b>Fax</b>	<b>Contact Person</b>
Maharagama	No.126, High Level Road, Maharagama	011-7487487	011-7487489	Mr. Rohan De Silva
Minuwangoda	No.28/5A, Kurunegala Road, Minuwangoda	011-7587587	011-7587589	Mr. Suren Abeywickrama
Kandy	No.161, D.S.Senanayaka Veediya, Kandy	081-7687687	081-7687689	Mr. Jagath Atapattu
Aluthgama	No.375, Galle Road, Aluthgama	034-7687687	034-7687689	Mr. Chithraka Hettiarachchi
Ratnapura	No.8A, Bodhirajarama Mawatha, Ratnapura	045-7687687	045-7687689	Mr. Ranjith Gunaratne
Kiribathgoda	No.121, Gala Junction, Kandy Road, Kiribathgoda	011-7787787	011-7787789	Mr. Dilshan Rathnayake
Matara	No.274A, Anagarika Dharmapala Mawatha, Matara	041-7687687	041-7687689	Mr. Dilak Wanigathunga
Kurunegala	No.395, Colombo Road, Kurunegala	037-7687687	037-7687689	Mr. Asinil Perera
Negombo	No.299, St.Joseph's Street, Negombo	031-7687687	031-7687689	Mr. Rohan Fernando
Gampaha	No.55, Yakkala Road, Gampaha	033-7687687	033-7687689	Mr. Ajith Rathnamalala
Galle	No.128, Main Street, Galle	091-7687687	091-7687689	Mr. Jagath Mendis
Chilaw	No. 84, Kurunegala Road, Chilaw	032-7687687	032-7687689	Mr. Wasantha Kumara
Kuliyapitiya	No. 111, Kurunegala Road, Aswedduma watha, Kuliyapitiya	0377-787787	0377-787789	Mr. Lakmal Kuranage
Embilipitiya	No. 103, New Town Road, Embilipitiya	0477-687687	0477-687689	Mr. Janaka Kumara
Moratuwa	No.303/A, Galle Road, Rawathawatta, Moratuwa	0117-807807	0117-807809	Mr. Kalpa Amarasinghe
Malabe	No. 824/C, New Kandy Road, Malabe	0117-387387	0112-078671	Mr. Priyantha Ratnayaka
Panadura	No. 293 A, Galle Road, Panadura	0387-687687	0387-687689	Mr. Ravindra Kumara
Nugegoda	No: 213, High Level Road, Nugegoda	0117-517517	0117-517519	Mr. Madhura Jayasekara

<b>Branch /Collection</b>				
<b>Center</b>	<b>Address</b>	<b>Telephone</b>	<b>Fax</b>	<b>Contact Person</b>
Bandarawela	No. 197, Badulla Road, Bandarawela	0577-687687	0577-687689	Mr. Chaminda Attanayake
Kalutara	No. 302,Galle Road, Kalutara South	0347-387387	0347-387389	Mr. Prasad Mendis
Anuradhapura	No. 521/11, Maithripala Senanayake Mawatha, Anuradhapura	0257-687687	0257-687689	Mr. Rangana Rupasinghe
Kegalle	No. 315, Main Street, Kegalle	0357-687687	0357-687689	Mr. Chandana Dasanayaka
Rajagiriya	No. 600A, Nawala Road, Rajagiriya	0117-489489	0117-489479	Mr. Dilhan Liyanage
Kaduruwela	No. 292, Batticaloa Road, Kaduruwela	0277-687687	0277-687689	Mr. Sirimal Priyantha
Piliyanadala	No. 84, Colombo Road, Piliyandala	0117-595595	0117-595599	Mr. Thushara Silva
Warakapola	No. 95, Colombo-Kandy Road, Warakapola	0357-689689	0357-689699	Mr. Prabath Dissanayake
Wattala	No. 520, Negombo Road, Wattala	0117-523523	0117-523525	Mr. Amila Chanaka
Borella	No.58, Castle Street, Borella	0117-876876	0117-876879	Mr. Sudheera Sampath
Mount Lavinia	No 340, Galle Road, Mt.lavinia	0117-867867	0117-867869	Mr. Piyasiri Kumara
Balangoda	No.86 C, Barns Rathwaththa Mawatha, Balangoda	0457-857857	0457-857859	Mr. Mahesh Abesingha
Uragasmanhandiya	No.52,Main Street,Uragasmanhandiya	0917-796796	0917-796799	Mr. Hirantha Dissanayake

# Glossary of Financial Terms

## Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

## 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.

## Available-for-Sale

All assets not in any of the three categories, namely, Held to maturity, Fair Value through Profit or Loss and Loans & Receivable. It is a residual category. It does not mean that the entity stands ready to sell these all the time.

## 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.

## 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.

## 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.

## 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.

## 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.

**Effective Interest Rate (EIR)**

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

**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.

**Held-to-Maturity Investments**

Non derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

**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.

**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.

# Glossary of Financial Terms

## 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.

## 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.

## 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.

## Risk Weighted Assets

On-Balance Sheet assets and the credit equivalent of off-Balance Sheet assets multiplied by the relevant risk weighting factors prescribed by the Central Bank of Sri Lanka.

## Solvency

The availability of cash over the long term to meet financial commitments as they fall due.

## Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

## Tier II Capital

Supplementary capital that consist of revaluation reserves, general provisions and debt instruments such as subordinated term debts and other hybrid capital instruments that combine characteristics of equity and debt.

## 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.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Vallibel Finance PLC will be held on 28th June 2017 at 10.00 a.m at the Auditorium of The Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 7, 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 2017 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 authorise the Directors to determine their remuneration.
4. To authorise the Directors to determine donations for the year ending 31st March 2018 and up to the date of the next Annual General Meeting.

#### 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 3, not less than forty seven (47) hours prior to the time appointed for the meeting.

By Order of the Board

**VALLIBEL FINANCE PLC**



**P W Corporate Secretarial (Pvt) Ltd**

Secretaries

25th May 2017

Colombo



# Form of Proxy

I/We\* ..... NIC No. ....  
of .....  
being a shareholder / shareholders\* of Vallibel Finance PLC hereby appoint .....  
..... NIC No. .... of .....  
..... or failing him\*

- |                                 |                 |
|---------------------------------|-----------------|
| Mr. K V P R De Silva            | or failing him* |
| Mr. Dhammika Perera             | or failing him* |
| Mr. S B Rangamuwa               | or failing him* |
| Mr. R M Karunaratne             | 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                  | of Colombo*     |

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 28th June 2017 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 authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
3. To authorise the Directors to determine donations for the year ending 31st March 2018 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 Seventeen.

.....  
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.

# Corporate Information

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## **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. K V P R De Silva – Chairman  
Mr. S B Rangamuwa - Managing Director  
Mr K D D Perera - Executive Director  
Mr. R M Karunaratne  
Mr. T Murakami  
Mr. K D A Perera  
Mr. A Dadigama

## **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](http://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](mailto: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.103A, Dharmapala Mawatha  
Colombo 07.

Deutsche Bank AG  
Colombo Branch  
No. 86, Galle Road,  
Colombo 03.

Hatton National Bank PLC  
Kollupitiya Branch  
No. 293, Galle Road,  
Colombo 03.

Commercial Bank  
Kollupitiya Branch  
No 285, Galle Road,  
Colombo 03.

Cargills Bank  
No.696,  
Galle Road,  
Colombo 03

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