ANNUAL REPORT 2016

UB FINANCE
A UNION BANK COMPANY

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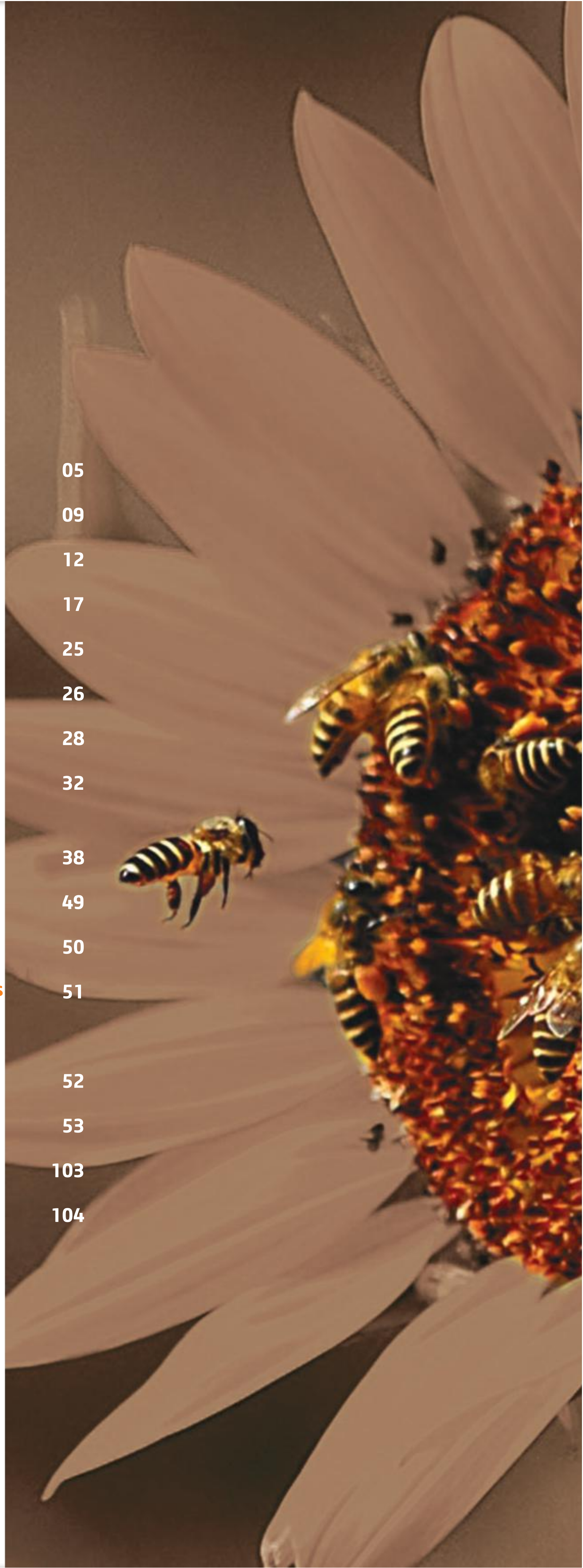
There are different types of bees in a honey bee hive. Each has its own important roles and performs specific duties within a bee colony. But together they deliver incredible team work to achieve the desired results. Similarly at UB Finance we believe that teamwork is an essential part of our workplace success. The strength of our team is in each individual member and by encouraging and promoting teamwork we enhance our ability to deliver results that supports us in our journey to be Sri Lanka's preferred financial provider.

Content



To be
"Sri Lanka's preferred financial solutions provider"

VISION

BUSINESS PRINCIPLES

- Effective and Efficient Operations
- Time tested Policies and Procedures
- State of the Art IT Systems
- Prudent Lending Policy
- Strict Expense Discipline
- Strong Capital and Liquidity
- Good Corporate Governance

MISSION

To provide,
our **Depositors** with secure and maximized returns.
To provide,
our **Customers** leverage to achieve their aspirations.
To maximize **Shareholder** value.
To empower,
our **Team** to deliver the values of the Company.
To operate,
within the **Regulatory** frame work.
To be a responsible corporate citizen towards the betterment of **Society**.

CORE VALUES

- **Intergrity**
- **Ownership**
- **Achivement**
- **Best People**
- **Team Sprit**

"We have undoubtedly demonstrated that the results we present are consistent, the strategies we employ innovative and the focus we possess enables us to partner the country in its development journey to deliver the unique proposition of economic and social value to stakeholders."

Alexis Lovell , MBE
Chairman

Chairman's Message

For us at UB Finance, it has been a year of extraordinary achievement. This can be deduced, simply by looking at our quantitative results, although, from a holistic perspective, our achievements over the year have been much more than that. The strategy we employed ever since UB Finance, a distressed asset at the time, was brought under the umbrella of the Union Bank Group was simply to tap into that unbridled passion that remains inherent in the Group and fuel strategic growth constructed on consistent and sustainable trajectories. Using the competencies and talents of an amazing team fueled by the unbridled vision of forward thinking leadership, we also instigated a landmark capital infusion from global private investment TPG, to ensure that UB Finance truly becomes a force to be reckoned with. Thus, emerged a financial entity that today is at top of mind recall, devoid of most negative connotations that hampered its past and rather enjoying the fruits of these far-sighted strategies that today have placed UB Finance in the honour ranks of a sustainably-run organization. We have undoubtedly demonstrated that the results we present are consistent, the strategies we employ innovative and the focus we possess enables us to partner the country in its development journey to deliver the unique proposition of economic and social value to stakeholders.

Our results must however be consistent and hence our growth strategy is based on that unshakable consistency. However, given the external volatility that is characteristic not just of Sri Lanka but the world, ensuring consistency in our growth paradigm is extremely challenging. This is further exacerbated given that our genesis emanated from a checkered past and the present operating environment in Sri Lanka being competitive. Looking back, resuscitating the badly distressed asset the almost seemed an impossible task at the time, specifically due to the fact that we were dealing with the hearts and minds of depositors.

However, the very fact that we were chosen to turnaround this distressed entity, embroiled as it was in an imbroglio of regulator intervention due to mismanagement of funds, displays the confidence the regulator had in the UB Group. We firmly believe this was due to the fact that our business model encompassed a strong financial foundation, sustainable business practices and uncompromising governance ethics. This meant that we were expected to live up to those expectations by not only the regulator but also by our stakeholders. The systematic programme we employed therefore had to be one that would deal sympathetically with our stakeholders while at the same time, ensure that this distressed entity will have a future in the annals of the Licensed Financial Companies genre in Sri Lanka.

The dual pronged approach we did initiate proved to be the most prudent; firstly, with the direction of the regulater our depositors converted a part of their diposits into non-voting shares, retaining the balance in the form of deposits and secondly, we serviced the request of those who wanted to redeem their deposits.

However, there is some anxiety that naturally permeates these shareholders' judgements, as these shares can only be converted through a listing. The listing process however has proved to be a challenging one. While having worked on a strategic formula to make UB Finance ready for listing including having a compliance framework and best practices in place to ensure that UB Finance will be one of the best governed and compliant LFCs in Sri Lanka, the legacy we have inherited prompts numerous queries from the CSE which is prolonging the process. With the assistance of the Central Bank of Sri Lanka which spearheaded the initiative of making LFC listing compulsory, a tripartite agreement will be mooted soon and the listing process get back on track. The price of the UB Finance share will be determined by the market, which I have confidence will surely reflect the soundness, accountability and transparency that your Company espouses.

On the other side of the coin, to this day, we have met each of our depositor obligations with no reservations, which is yet another positive feature that has augmented the intangible goodwill that we continue to collate successfully.

As can be deduced, for the asset we were given to be this distressed was rooted in a number of reasons, which included lack of control stemming from internal processes not being attuned or structured to ensure an astute control and monitoring framework, ad-hoc funding of unsustainable projects, unplanned business strategies and security being more in real estate than in assets that could be disposed of easily. We also grappled with the issue of having a number of parcels of land devoid of titles and having some shareholders who were unnamed or unidentifiable. By segmenting our shareholders and depositors we did gain some credence for the next step, which led to legal aspects being pursued on the leases, real estate and deposits, to ensure compliance. The dedicated desk which was established for three months to record the details of all shareholders enabled us to move through to the next phase of legal procedures.

In tandem, came the task of structuring this entity, gearing it to meet present needs, while being able to step into the new world of emerging opportunity.

This is where I raise my hat to our team, who unwaveringly supported the entire restructuring process. We thus built a management team prepared to deal with these present challenges, girding themselves to wade through the inherited mire of dealing with the challenges inherent in having undertaken a distressed fund-taking company, while conceptualizing a framework to remove any negativity that tainted UB Finance and move it to the next level.

According to the Central Bank of Sri Lanka Annual Report 2015, the LFC sector's outreach comprised 46 Licensed Finance Companies which for a market of this size tends to be too large. Observing the LFC landscape objectively, I would also surmise that best practices in governance and compliance is practiced by just a limited number. Similarly, in looking at the total of 1,216 branches spread around the country, there is a need for an entity like ours to be astute in our network placements, which is a plan that has augured well for building and growing our business. We have now expanded our branch network from two to 16 strategic locations, and will continue our expansion plans aligned to the macro paradigms we see emerging in the next few years.

We began an astute growth process by setting ourselves a modest monthly target, but with a caveat that growth must be sustainable and haphazard. Our team, has not disappointed. Today, the growth has been consistent, well managed within a framework of internal controls, compliance, risk management and financial accountability. I do believe that UB Finance is now held in high esteem by the regulator as one of the best LFCs in the country.

Ever since UB Finance came under the umbrella of this Group, one of the imperatives that remains ingrained into our psyche is the need for uncompromising governance tenets. The BB rating given to us by ICRA epitomizes this. We have not lapsed on any of our governance diktats; our financial statements are produced on time, our committees independent, transparent and accountable and control mechanisms and approval processes are world class. However, we recognize the ever-evolving facets within any financial services governance structure and hence, are now augmenting some areas for further independence and monitoring. Risk management and internal audit are now centralized under the Group structure for added independence, while compliance too comes under the aegis of the Group compliance. In addition, an internal consulting team assessed the competency levels of our team and our processes, gauging that both are currently exceptionally good given the background from which we emerged and the damage control management we have to continually engage in given that background.

UB Finance is stepping into an era that heralds much transformation. It is estimated by the IMF and the World Bank that per capita will increase to US $4,500 over the next three years, indicating a larger disposable income among consumers. This means that spending will increase for consumer durables, which is the market that UB Finance intends to be active in. The competition among LFCs is intense and it makes it prudent for us to find our niche, which we see in micro lending, working on an average ticket size of Rs 1 Mn, which dilutes risk and enables us to concentrate on a larger market share.

By cherry picking locations that will suit the business plan we have in place, our branches will continue to be expanded in high consumer spend areas and manned judiciously by team members who are specific to that location. This we believe is the advantage we have in forging and nurturing the loyalty, trust and confidence of customers, while also enabling the close relationships to trigger better feedback on customer expectations and aspirations.

Our product portfolio is constructed on the platform of innovation, being customized to ensure alignment to macro transformational paradigms, where conventional investment solutions including fixed deposits and savings are coupled with financial solutions ranging from leasing, to vehicle and mortgage loans and working capital solutions. The latter is fed through the pragmatic initiative that we established via the UB Finance Premier Factoring Service Center, which we intend to position as the biggest in this business genre, supporting the Company's growth strategy.Factoring already contributes 30% to our bottom line, while adding significantly to our customer engagement strategies.

Technology takes precedence in our plans being a key enabler to our growth strategy. Significant investments continue to be infused with new systems and processes being implemented and identified to minimize human intervention and maximize automation.These will undoubtedly increase productivity and efficiencies and minimize risk, while enabling our team to perform to their optimum, removing them from mundane time-consuming tasks to the larger more engaging features of customer service excellence.

As a Group, we have thrived on being optimistic. This has augured well for us in both good times and challenging times and even though over the last year, we did see the bottom fall out of the vehicle market, we were always ready to employ strategies that would help us overcome that hurdle. We are now well entrenched in the small car market given their affordability and the ability to feed an aspirational need among our target consumer. We are also cognizant of managing the macro milieu of interest rates and inflation, fiscal budget decisions, constant policy changes and the mismatch faced in borrowing and lending.

Dear Shareholder, while the fundamentals have now been detailed and are in functional mode to take your Company into the next realm, it is imperative that we gain your confidence and trust as we take the next step. We are all aware of the macro milieu being one of intense competition and unpredictable in policy, strategy and function. However, we do perceive the nation's citizens prompting a better lifestyle for themselves, taking advantage of the development initiatives that are cascading, especially in the urban setting. We have now established a strong and robust company that will assist Sri Lankans in meeting their aspirations working on a strategy that's driven by passion and commitment to innovate, deliver and envision products and services responsibly and sustainably for the betterment of all.

My appreciation is extended to my dynamic Board of Directors and management team who have bought into our ambitious vision and are permeating that determination to fuel our team. Our customers have truly been a unique cohort of stakeholders whose continued confidence, trust and loyalty helps us develop and grow. The Regulator and his team have been one of great support and guidance in our rather challenging journey in a relationship that we look forward to nurturing, as the Company enters its new chapter.

I look forward to an exciting chapter in our journey over the next few years given that UB Finance is now equipped with the necessary rudiments to continue etching its way upwards in the honour roll of corporate Sri Lanka as a fundamentally sound, pragmatic, visionary financial services solutions provider.

Alexis Lovell, MBE
Chairman

Chief Executive Officer's Review

Ransith Karunaratne
Director / Chief Executive Officer

"Team UB Finance is the key driving force of our success."

A desire to explore new horizons and pursue ambitious goals form the essence of the Union Bank Group. These characteristics have augured well for the UB Finance, which has emerged as one of the preferred financial solutions providers in the Country.

MACROECONOMIC OVERVIEW

In the wake of global volatilities, two major elections and political change in the Country, the Sri Lankan economy was subdued, recording a modest growth of 4.8 percent. Further, Global Volatility, Uncertainty, Complexity and Ambiguity were observed, fluctuating stock markets in the East, the gradually tightening monetary policy in the United States, increased conflicts in the Middle East and around the world as well as economic changes in Europe led to restrained and uneven economic activity across many countries. Consequently, the global economy grew below its potential and was marginally down compared to the previous year. This in turn lowered the demand for Sri Lankan exports even with the Rupee weakening against the US Dollar.

The agricultural sector had a marginal growth mainly due to the increase in paddy production while other traditional products such as tea and rubber declined. The sector was also affected by adverse weather conditions. In the industrial sector the growth rate slowed down during the year in concern mainly due to the sluggish performance of the construction, mining and quarrying sectors. The services sector growth rate stood still with main contributions coming from the financial services sector despite the restraints faced. Delays in moving forward with major infrastructure projects and other expected investments also had a dampening effect overall.

FINANCIAL SECTOR OVERVIEW

The Sri Lankan financial services sector mirrored the global and local economic movement showing mixed results in 2015/16. Exchange rate depreciation, changes in tax structures on motor vehicles as well as monetary policy adjustments impacting interest rates and the loan to value ratio (Introduced to minimise risk and uplift the asset quality of the industry), had a somewhat negative impact on price and demand for motor vehicles which is the core business of many Finance Companies.

KEY PERFORMANCE HIGHLIGHTS

During the financial year under review, significant improvements in business volumes and customer bases were achieved by the sales team. Total income for the period increased by 64% to Rs. 1,055Mn and operating income for the period increased by 104% to Rs. 508Mn. Net profit after tax was Rs.78Mn in comparison to Rs.12Mn in 2014/15. Since the takeover, the Company has continually invested in brand and capacity building which is now paying off and will continue to lead to substantial returns in future.

Our asset position remained well matched to our liabilities whilst we maintained sound liquidity levels. The depositor base increased from Rs.2,825Mn to Rs.4,236Mn contributing to a 50% increase, highlighting the confidence placed by depositors in the Company. Net loans and receivables from customers grew from Rs. 3,729Mn to Rs. 6,479Mn, an increase of 74% due to the substantial investment made in previous years in channel development and networking. The total assets increased by 67%, with the asset base standing at Rs.8,222Mn as at 31.03.2016.

I am pleased to announce that ICRA Lanka Limited given UB Finance an issuer rating of (SL) BB with a stable outlook in recognition of the Company's sustainable growth and stability.

BUSINESS REVIEW

UB Finance continue to follow a very dynamic and agile business model which has been the key factor enabling the organisation to identify and grasp opportunities to create value and respond to fast changing trends, customer requirements and ever changing business landscape.

Throughout the year the Company maintained a balance between a growth strategy and a consolidation mode. Whilst strengthening its frontlines, UB Finance has successfully reinforced its foundations, whereby the crux of the Company's 3 pronged strategy is adjusted to leverage on its core competencies and strengths to fuel growth. Firstly, by focusing on introducing penetrative systems and processes to ensure that operational facets of business are smooth, efficient and speedy; decision making has been made easier due to information gathering and accessibility being comprehensive. Secondly, controls and monitoring have been made stringent and constructed on a well-managed uncompromising top-down approach beginning from the Chairman and Board of Directors of the Company; permeating transparency, accountability and sincerity of action at every level. This has naturally led to the third facet of the strategy, which deals with the overall governance structure designed to resonate across every tenet of our vision. This integrated business model has redeemed good results and continues to do so.

UB Finance currently offers an extensive and enhanced range of products and services. These include investment solutions such as fixed deposits and savings with a wide-range of features and options to suit our customer's varied investment needs. Financial solutions in the form of leasing, vehicle, mortgage and personal loans as well as working capital solutions through factoring, cheque discounting and easy drafts are also tailored to fit our customer's requirement, capacity and cash flows.

Our brand remains strong, underpinned by the financial strength and stability of our parent company Union Bank of Colombo PLC. Amidst the mixed sentiments of the financial sector, UB Finance continued to assume a somewhat cautious approach towards expanding its footprint across the country in 2015/16. The Company opened five branches in key locations in Nuwara Eliya, Polonnaruwa Gampaha, Kalmunai and Ratnapura further extending and strengthening its presence along the established routes while growing our total network to sixteen branches. Further, branches are expected to be launched in Ampara, Chilaw, Anuradhapura and Ja-ela in the near future.

As in previous years extensive alliance building initiatives were rolled out across the island through the branch network. This initiative was stepped up significantly in the financial year in concern to encompass all business sectors and product offerings and was centrally coordinated for better efficiency and effectiveness. In addition to the traditional core channels such as branded vehicle dealers, vehicle importers, brokers, insurers, etc. the Company's geographical disbursement in strategic locations assisted us to focus and directly reach out to various industries while minimising costs. For example, in Polonnaruwa, Kurunegala and Tissamaharama, our strategy is mainly focused towards the farmers; in Ambalangoda, Galle and Matara our solutions are geared towards the fishing communities, in Ratnapura we facilitate the gem & mining industry and in Nuwara Eliya the focus is on the tea sector. These initiatives also afforded us an opportunity to expand our role as a conduit for the financial empowerment of women entrepreneurs.

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The Company's lucrative move into the SME sector continued to gain momentum for the fourth year and market responses have been highly encouraging. The micro leasing portfolio has grown exponentially which has considerably buttressed the Company's profits and placed us in a prime position in the SME segment. With the recent launch of its fully functional UB Finance Premier Factoring Service Centre in Colombo 4, the Company further intends to significantly promote the SME segment through its factoring arm. This product holds favourable market potential with the ability to become extremely profitable while the presenting significantly lower risks, which is unique to UB Finance. The Critical Success Factor of this product offering, is attributed to the specialized, industry savvy staff employed by the Company who pioneered Factoring industry in Sri Lanka.

Team UB Finance is the key driving force of our success.Our employees are extraordinarily committed, spirited and fearless in their endeavours and have taken the Company from strength to strength. With an island-wide cadre of over 250, UB Finance continues to provide mentoring, training and coaching to support the key imperatives of a performance driven and service oriented culture.

As we stride forward with our strategy, UB Finance continued to review and improve its business operations, documentation, procedures, processes and systems in 2015/16. In line with our expansions and diversification, business operations and support services where restructured and realigned to maximise overall efficiency and effectiveness. IT initiatives launched in previous years were relooked at and consolidated to maximise output and improve productivity.

LOOKING AHEAD

The future looks promising for the Company's continued success. UB Finance will continue to facilitate access to finance for the SME sector and support capacity building across this sector especially focusing on rural areas as well as young adult and woman entrepreneurs who have much potential.

In the longer term, in line with our parent company, UB Finance look to invest heavily in core technology and other hi-tech solutions in order to improve our performance, alleviate our services, widen our reach and facilitate greater financial inclusion. Our core strategies remain firmly focused on diversification, growth and expansion, through further capital investments and by strengthening our existing partnerships and alliances, while identifying and converting potential opportunities into sustainable business avenues.

We will strive ahead towards achieving our future objectives, not only in terms of profitability but also in terms of governance and corporate social responsibility, which we are extremely conscious of due to our legacy. It is in this light that we also look forward to a successful listing on the Colombo Stock Exchange to elevate the Company to the next level which will benefit all our stakeholders.

APPRECIATIONS

I take this opportunity to thank our Chairman, Mr. Alexis Lovell and my colleagues on the Board for their staunch support and expert guidance throughout the year, which has been an immense source of strength. I warmly welcome Mr. Ranvir Dewan who is also Director of our parent Company Union Bank of Colombo PLC, to the Board of UB Finance. I have no doubt that his wealth of experience in the banking and financial services sector will benefit the Company immensely.

I also express my gratitude to the Governor, Directors and Officials of the Central Bank of Sri Lanka for their advice, guidance and continued support which has assisted us to strengthen our risk management and compliance, and intern improved our operations enabling us to deliver enhanced value to all our stakeholders. I also extend my thanks to M/s. Ernst and Young, our external auditors and our internal audit team from Union Bank for their valuable input.

I extend my heartfelt thanks to the Senior Management of UB Finance for their unwavering loyalty and valued contribution to the company's success. My most sincere appreciation also to our strong team for their unwavering commitment, passion and tireless efforts that have continued to drive the Company forward.

In conclusion, I wish to thank all the stakeholders, especially the depositors, customers and shareholder of UB Finance Co. Ltd. for the trust and confidence placed by you in the Company. The Board of Directors and I request your invaluable support in the years ahead to steer your Company towards its vision of being preferred Financial Services Provider in Sri Lanka.

Ransith Karunaratne
Director / Chief Executive Officer

Mr. Ranvir Dewan

Mr. Indrajit Wickramasinghe

Mr. Chandrakumar Ramachandra

Mr. Upali Wijeyesekera

Mr. Ananda Atukorala
- Deputy Chairman

Mr. Alexis Lovell, MBE
- Chairman

Mr. Davis Golding

Mr. Malinda Samaratunga

Mr. Ransith Karunaratne
- Director / CEO

MR. ALEXIS INDRAJIT LOVELL, MBE
Chairman / Non Executive Director

Mr. Alexis Lovell has been a Non Executive Director of UB Finance since the acquisition of the Company in November 2011. He was appointed as the Chairman of the Company in October 2012. He is a Chartered Management Accountant (UK) and holds a Post Graduate Degree in Business Administration (Australia). He enriches the Board with over four decades of experience in the field of finance & investment banking. Mr. Lovell was awarded the Most Distinguished Order of the British Empire (MBE) by Her Majesty the Queen of England for services to Investment Banking at JI Capital Limited Middle East since 1971.

Mr. Lovell is the Deputy Chairman of Union Bank of Colombo PLC, the Parent Company of UB Finance & Chairman of National Asset Management Ltd which is a Group Company. He is a member of the Board of Directors of Associated Electrical Corporation Ltd, Lake Leisure Holding (Pvt) Ltd & Real Investment Holdings Pvt Ltd. Mr. Lovell is well respected and recognised personality in the banking and financial industry for his deep insight, dynamic leadership, revolutionary concepts and his ability to re engineer entities and create wealth.

MR. ANANDA WIJETILAKA ATUKORALA
Deputy Chairman
Independent Non Executive Director

Mr. Ananda Atukorala was appointed to the Board as an Independent Non Executive Director in July 2012. He is designated as the Deputy Chairman and Senior Director to the Board. He possesses extensive experience in banking, having been with the ANZ Banking Group both in Sri Lanka & Overseas. He has served as Deputy General Manager, ANZ Grindlays Bank, Sri Lanka; Country Manager Sri Lanka of Mashreq Bank PLC and was a former advisor to the Ministry of Policy Development & Implementation. He was a Director of Union Bank PLC for a period of nine years. He was also a former Director of the Sri Lanka Banks Association (Guarantee) Ltd. & Credit Information Bureau of Sri Lanka (CRIB).

Presently, he serves as an Independent Non-Executive Director of DFCC Bank PLC, United Motors Lanka PLC, Orient Finance PLC., Pragnya Tech Parks Lanka (Pvt.) Ltd., Arni Holdings and Investments (Pvt.) Ltd., Unawatuna Boutique Resort Pvt Ltd. and is the Hony. Treasurer of Oxonian Heart Foundation.

Mr. Atukorala had also served as a Member of the Technology Initiative for the Private Sector - an USAID sponsored project with the Ministry of Industrial Development. He was also a Working Committee Member - Commercial Banking Sector - Presidential Commission on Finance and Banking, Committee Member - Banker's Club of Sri Lanka. He holds a B.Sc (Leeds,UK), MTT (North Carolina, USA) and a MBA.

MR. DAVIS FREDERICK GOLDING
Non Executive Director

Mr. Davis Golding has been a Non Executive Director of UB Finance since the acquisition of the Company in November 2011. He represents interests of the 2nd major shareholder of the Company, Shore Cap II Limited. Mr. Golding is EVP and Chief Investment Officer of Equator Capital Partners, which manages ShoreCap II Limited an international private equity fund which invests in and supports financial institutions in emerging economies.

Prior to joining Equator Capital, he was EVP and Chief Operating Officer of ShoreBank Pacific, a US-based community development bank. Mr. Golding previously worked as Director, International Mergers and Acquisitions/Corporate Development for Textron Financial Corporation. He also served as President and CEO of a Hong Kong based merchant banking operation involved in lending, trade finance and corporate restructurings.

He has over three decades of experience in international finance, banking and mergers and acquisitions. He holds a B.A. in Business Administration from Duke University, Durham, North Carolina, USA.

MR. KENNETH KUSINATH UPALI WIJEYESEKERA
Non Executive Director

Mr. Upali Wijeyesekera was appointed as a Non Executive Director to the Board at the acquisition of the Company in November 2011. He is a Planter by profession and is a Fellow of the Institute of Plantation Management. At present, he serves on the Board of Property Development PLC (a subsidiary of the Bank of Ceylon) and in the Directorate of Koladeniya Hydropower (Pvt.) Ltd. He commenced his career with the Sterling Tea Plantation Company of M/s. James Finlay & Co. Ltd. and later with M/s. George Steuart & Co. Ltd. and counts more than three decades of experience in the Planting sector having served at many reputed Plantation companies in Sri Lanka.

Mr. Wijeyesekera has also held office in the Ceylon Planters Society and the Planters Association of Ceylon. He was a former Chairman of the Sri Lanka Cement Corporation & also Chaired the Ceylon Planters' Society, Dickoya Branch, Sri Lanka State Plantations Corporation Board (Hatton) and Kandy District Planters' Association of Ceylon. He also functioned as the Director General of the Janatha Estate Development Board, Nuwara Eliya Zone.

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MR. INDRAJIT ASELA WICKRAMASINGHE
Non Executive Director

Mr. Indrajit Wickramasinghe was appointed as a Non Executive Director of UB Finance in December 2014. He counts over 25 years of Management Experience having worked in the financial and consumer sectors in both local and multinational companies. He holds a Masters Degree in Business Administration (MBA) from the University of Sri Jayawardenapura, is a Fellow Member of the Chartered Institute of Marketing UK, a Chartered Marketer, a Member of the Association of the Professional Bankers and a member of the Oxford Business Alumni, University of Oxford.

Mr.Wickramasinghe serves as the Director / Chief Executive Officer of Union Bank of Colombo PLC and is a Non Executive Director of National Asset Management Limited (NAMAL). Prior to his appointments at the Union Bank Group, he served as the Chief Operating Officer of NDB Bank where he was responsible for all business areas including Retail Banking, Corporate Banking, SME Banking and Project Finance. Prior to that he held positions as a Vice President looking after functions such as HR, Marketing and seven years as Vice President heading Retail Banking.

Mr. Wickramasinghe was also a Non Executive Director of Eagle Insurance/Aviva NDB Insurance, NDB Capital Holdings PLC, NDB Securities (Pvt) Ltd, Development Holdings (Pvt) Ltd and the Credit Information Bureau of Sri Lanka.

MR. MALINDA NAMAL SAMARATUNGA
Non Executive Director

Mr. Malinda Samaratunga was appointed as a Non Executive Director to the Board at the acquisition of the Company in November 2011. He is a Fellow Member of the Certified Management Accountants, Sri Lanka and a Associate Member of the Chartered Institute of Management Accountants, UK. He holds a Bachelor of Science (BSc) degree from the University of Colombo and a Master of Business Administration (MBA) from the University of Colombo.

Mr Samaratunga counts a decade & a half of extensive experience in finance & management in the banking & financial sectors. He currently functions in the capacity of the Chief Financial Officer of Union Bank of Colombo PLC, the Parent Company and prior to joining the Bank, he was the the Assistant General Manager - Finance of Commercial Leasing Co. Ltd. for almost a decade.

MR. CHANDRAKUMAR RAMACHANDRA
Independent Non- Executive Director

Mr. Chandrakumar Ramachandra was appointed as an Alternate Director to Mr. Davis Golding in October 2013 & was re-appointed to the Board in March 2014 as an Independent Non Executive Director. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL). He counts almost four decades of post qualifying experience both locally and overseas specialising in the fields of auditing, tea exports, financial services and packaging.

He served as a Partner of M/s. Hulugalle, Samarasinghe & Co. And later joined Lipton Ceylon Ltd where he was the Chief Accountant / Company Secretary at the time of leaving. During this period he also served at the Head Office of Lipton, UK. He also held several key positions in various reputed business entities such as Commercial Bank of Ceylon's Fund Management Co. and Varna Ltd.

Mr. Ramachandra served as a Non Executive Director of Sathosa Retail Ltd. In November 2004 he took up appointment as the Chief Financial Officer of the Uni Walkers Group. In early 2005 he was appointed to the Board of Uni Walker Packaging Ltd a post he held until early 2015. He also served as an independent Director on the Board of several Capital Reach Group Companies. He also sits on the Board of Asia Asset Finance PLC, N. Vaitilingam & Co (Pvt) Ltd and Ceylon Galvanising Industries Ltd. He is currently the competent Authority of Hotel Developers PLC, the owning company of the Hilton Colombo.

Mr. Ramachandra is a past President of the Chartered Accountants Students Society of Sri Lanka and is a double prize winner in Accounts at the exams conducted by the ICASL, in 1972 and 1974. He was also a CIMA Accounts World Prize winner in 1976.

MR. RANVIR DEWAN
Non-Executive Director

Mr. Ranvir Dewan joined TPG Capital in July 2006 and is based in Singapore. He is currently the Head of Financial Institutions Group Operations. From April 2000 to July 2006 he was Executive Vice President and Chief Financial Officer of Standard Chartered First Bank (formerly Korea First Bank) in Seoul, Korea.

Prior to that Mr. Dewan spent 13 years with Citibank Global Consumer Bank and held various senior positions in its International businesses. In his previous assignment, he was Regional Financial Controller of Citibank" Global Consumer Bank with responsibilities covering 11 countries in the Asia Pacific region. Mr. Dewan has also held senior positions with KPMG in Canada and England where he specialized in the audits of financial institutions. Mr. Dewan is a fellow of the Institute of Chartered Accountants in England & Wales (FCA) and a member of the Canadian Institute of Chartered Accountants (CPA, CA). He holds a Bachelor of Commerce (Honors) Degree from the Shriram College of Commerce, Delhi University, India. He serves on the Boards of Union Bank of Colombo PLC, Shriram City Union Finance Limited and is also a member of the Executive, Audit and Risk Committees of these institutions.

MR. RANSITH KARUNARATNE
Director/ Chief Executive Officer

Mr. Ransith Karunaratne took over as the Chief Executive Officer of UB Finance in November 2012 and was appointed to the Board of Directors in March 2014. He is a Fellow Member of the Chartered Institute of Management Accountants - FCMA (UK) and holds a Masters Degree in Business Administration (MBA) from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenapura.

Mr. Karunaratne counts almost two decades of experience and has an exemplary track record in the financial services sector, having successfully launched, grown and managed high quality and profitable credit portfolios. He specializes in the area of Factoring. He has been the driving force behind restructuring, re-branding and re-launching of the Company.

He was previously employed by LB Finance PLC in the capacity of Deputy General Manager – Corporate Lending, Factoring & Investments. He also functioned in the capacity of Assistant General Manager – Factoring at Commercial Leasing and Finance PLC and Portfolio Manager at Mercantile Leasing Ltd. which was later acquired by Nations Trust Bank.

He is also involved in several social and community alleviation projects and serves on the Board of the Lanka Evangelical Alliance Development Service (LEADS).

"UB Finance remains emphatic on extending financial assistance to entrepreneurs who contribute towards the development of the nation."

Suresh Kandiah
Chief Operating Officer

We are pleased to conclude another year of significant performance contrary to the economic milieu in the year under review. In 2015, we continued to witness subdued and uneven economic activity across all countries. Against this volatile global economic backdrop, the Sri Lankan economy had to sustain significant challenges to safeguard its growth momentum. Also the changes that prevailed within the nation's sociopolitical landscape demonstrated a challenging operating environment. But the Sri Lankan economy remained resilient to these changes with a growth of 4 .8 percent in 2015, a marginal decrease from 4.9 percent in 2014. Furthermore, due to the changes mandated by the Budget 2015, vehicles became liable for increased tax and this had a direct impact on the performance of the financial services sector and on one of our core products leasing. However, amidst these challenges, UB Finance maintained a robust growth.

2015 was a year of change for UB Finance following the milestone investment in 2014 in its holding company Union Bank by the global private equity giant TPG through its affiliate Culture Finance Holdings Ltd. This was one of the largest foreign direct investments into the country and has set Union Bank Group on an exciting journey. This will guide our trajectory for growth keeping with our vision to be Sri Lanka's preferred financial solutions provider. Our reputation for strength and stability within the financial services arena is further supported through our competitive edge of being the first finance company in Sri Lanka to be backed by a private sector commercial bank.

The period under review was marked by a focused strategy of expansion. In this respect well-orchestrated programs were implemented and executed across the division of the organization that helped us edge closer to our goals. Due to policy amendments adopted by the Central Bank of Sri Lanka with regard to the consolidation of the financial services sector and with the persistently dull credit demand, in 2015 UB Finance assumed a cautious approach towards expanding its footprint across the country. In line with its corporate goals for the year of extending its branch network, the company opened five branches in key locations at Nuwara Eliya, Polonnaruwa, Gampaha, Kalmunai and Ratnapura further extending and strengthening our presence in the market and growing the total network to sixteen branches.

Supporting growing customer needs, UB Finance offers an enhanced range of products and services including investment solutions such as fixed deposits and savings, coupled with financial solutions in the form of leasing, vehicle and mortgage loans as well as working capital solutions through factoring, cheque discounting and easy drafts. This year too, we further enhanced our deposit base despite numerous emerging challenges, once again reflecting the confidence placed by our depositors in UB Finance. The company's asset base also grew phenomenally during the year far exceeding the growth rate of the financial services sector. We continue to create innovative tailor made solutions for our customers that offer greater convenience, better support and enhanced flexibility.

UB Finance's growing focus on the SME sector continued to gain momentum during the year and our progressive suite of products for this segment has been well received by them. Furthermore, several initiatives were carried out across the country to enhance our value proposition to the small and medium enterprise customers through a wide products and services range to meet the evolving needs of this sector. UB Finance remains emphatic on extending financial assistance to entrepreneurs who contribute towards the development of the nation.

SME Composition

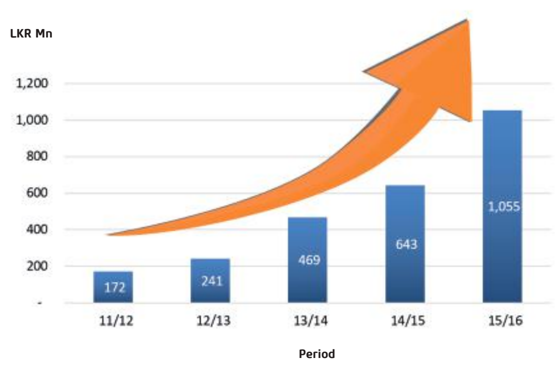
We also improved process efficiencies and aligning of our talent pool to deliver the best value and service thereby contributing to the significant growth and profitability of the organization. We continued to place significant importance of human capital as a key driver of the business. UB Finance continues to provide an enriching work environment that motivates and inspires its employees to perform at peak. Re-engineering of the business operations, documentation, procedures, processes and systems during the year has geared the company to offer its customers a superior level of service due to the overall efficiency and effectiveness of business operations. A number of IT initiatives were launched during the period under review enabling automation of a number of processes and imbuing speed and efficiency into the Company's operations. Brand and image building initiatives also continued during the year to increase market share and augment our service offering.

UB Finance is also committed to the highest standards of Corporate Governance, upgrading its practices in line with regulatory requirements, and further strengthening them qualitatively in line with industry best practices. Thus, in-line with our sustainable growth and good governance structure in place, ICRA Lanka Limited gave UB Finance and issuer rating of BB with a stable outlook. The Company considers compliance with the regulatory requirements and guidelines as core to its business and good governance.

The Internal Audit function is conducted by a team of experienced professionals of the Union Bank internal audit team. The Internal Audit team of UB Finance is responsible for reviewing and reporting on the effectiveness of the internal control systems and ensuring full compliance with statutory and other regulations within the given framework.

In 2015/16 UB Finance highlighted a significant improvement in business volumes in comparison to the previous financial year as a result of the development initiatives undertaken by the Company to strengthen its rapidly progressive position. Income for the period increased by 64% to Rs. 1,055 M and the total operating income for the period also increased by 104% to Rs. 508M. The profit for the year 2015/16 was Rs.78M in comparison to Rs.12M in 2014/15.

Revenue Growth



MARKETING

UB Finance continued on an aggressive marketing communications strategy focused on building its brand responsibly and reinforcing the distinctive brand value. A strategic marketing plan began during the year in tandem with the expansion of the branch network helping to create a strong and dynamic brand that maintains a sustainable presence in the financial services industry. Awareness and visibility for the UB Finance brand was increased with the opening of five new branches during the year. A standardization of branches was also effected to ensure uniformity and the reinforcement of the brand image that would add value to the Company's corporate persona and presence. There were also significant Channel development initiatives undertaken to standardize and align the brand.

Further, Marketing created the space for integrated key communication strategies to be cascaded across all communication mediums to place the Company's products and services across the target segments and support the UB Finance customer acquisition plans in an intensely competitive environment. Advertising was carried out through electronic and print media and social media platforms highlighting its suite of products and services.

The Company also used it's corporate website as a communication medium for its portfolio. To further enhance the brand image, the organization will re-launch its corporate website to offer customers an exceptional user experience. The improved site will be rich in content with convenient navigation to provide easy access to the Company's products and services.

The brand also gathered higher brand prominence, visibility and presence through focused BTL initiatives that were introduced to drive and promote the product range. Effective marketing and promotional campaigns were organized across the country and included door to door campaigns and town storming. Outdoor advertising was also carried out for maximum visibility through hoardings, banners, leaflets and signboards. Additionally, a cohesive Public Relations Strategy was mooted to strengthen the Company's image, perception and status, promoting it as a leader in the preferred sector.

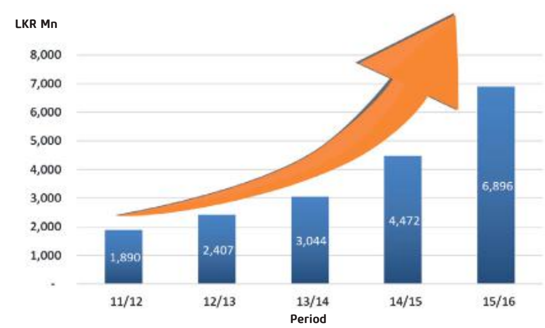
LEASING

Our reputation is largely built on lease finance. This is aptly supported by our strong regional presence and our ability to offer tailor made facilities that support changing lifestyles. The division also placed strategic focus on improving credit quality which was done by strengthening credit appraisals and underwriting standards. We offer competitive leasing solutions with customised payment plans that is aligned to our current lease structure. Furthermore, we have implemented a centrally managed rigorous credit evaluation process that not only improves the quality of our credit standards but also improves the turnaround time for processing a credit file.

During the year we continued to enhance efficiencies within the division through a restructuring process. Robust marketing campaigns were also implemented across the country to reach specific customer segments. Salient efforts to build strategic alliances with vendors and dealers continued to also play a role in the leasing business. Our leasing portfolio performed well, recording a growth of 131% amidst changes that occurred during the year that impacted negatively the leasing industry. Our total credit customers increased by 80% and we continued to offer competitive rates and a quick and speedy service.

Credit Customer Growth

Total Lending Portfolio



Lending Portfolio Composition

FACTORING

The UB Finance factoring division continues to deliver innovative, tailor made working capital solutions to meet specific business requirements. Our portfolio includes invoice discounting facilities, cheque discount facilities, special loans and easy draft that helps customer obtain funding against business assets. All these products and services work on the premise of adding value to a customer's expectations and aspirations, while also furthering developments in the financial services sector. We offer greater funding flexibility, supported by a state of the art factoring and working capital management system. Factoring facilities are offered to customer's based on customer credit worthiness and we ensure proper evaluation procedures are adhered to at the outset and thereafter periodic reviews are carried out to support our monitoring process.

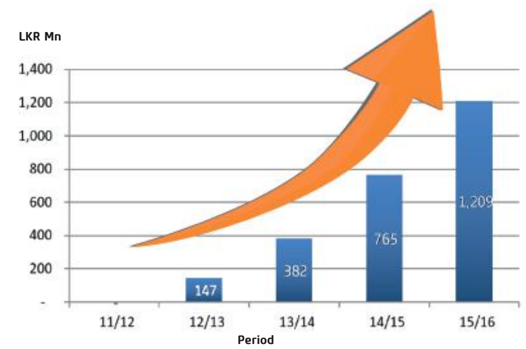
Factoring Customer Growth

With the recent launch of its state-of-the art fully functional UB Finance Premier Factoring Service Centre in Colombo 4, the Company intends to significantly grow its factoring business. In tandem with this development, UB Finance engaged in an expansion drive of the factoring team to support the developments and growing business and through focused marketing activities the Company helped to create awareness about the array of products the company could offer to SME/MM clients in key areas across the country. These products have been very favorably accepted in the market while continuing to assist to increase the profitability of the company.

The Factoring portfolio grew during the year by 58% and our factoring customer base grew by 100%. The factoring portfolio has contributed 19% of our interest income with 61% from Leasing and Hire Purchase and 20% was from assets backed loans.

Composition of Portfolio Income

Factoring Portfolio

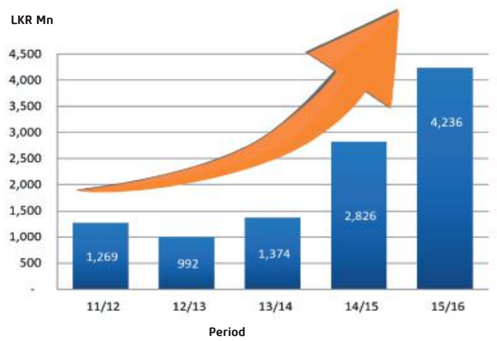


DEPOSITS

Amidst the challenges that befell the industry in the last year, UB Finance successfully grew its asset base far exceeding the growth rate of the financial services sector. This was attributed to UB Finance increasing its foot print and penetration into new geographic areas and the aggressive marketing of its retail product offering. Deposits continued to account for the bulk of the funding mix during the year with a strong growth of 50%, reflecting the confidence placed by our depositors in UB Finance. We also focused on extending our market share as a mean of further growing our fixed deposit base. We continue our commitment in delivering a superlative customized service paying finer attention to the deposits business which constitute speed of delivery combined with safe and secure investments prospects. During the years we also continued to maintain a healthy retention rate of our retail customers which exceeded 70%. We also streamlined deposit operations to meet the growing demands.

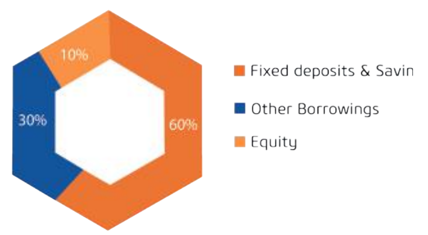
Fixed Deposit Growth

Fixed Deposites & Savings Base



With the intention of broad basing the deposit product range to garner more business, year round marketing initiatives were organized for key segment groups and deposit canvasing operations continued on a growth trajectory at branch level as well during the year. We will also continue to expand our efforts of boosting deposits though value added benefits such as providing customers with easy access to their accounts through ATMs and electronic based solutions.

Funding Mix



LEGAL AND RECOVERIES

While we focused on increased business volumes we continued to uphold the quality of our portfolio through improved efforts in recoveries. The company continued to streamline operations in its legal and recoveries unit. Despite the rapid expansion in almost all lending portfolios, UB Finance has been able to successfully contain the number of defaulters due to more stringent lending criteria and a focused recoveries drive by the recovery department. Concerted measures are in place to pursue on recoveries throughout the organisation. It is a collective responsibility and therefore ensures that it is clearly prioritized in our day-to-day operations. Systems with access to real-time information and well organised processes support operational staff of the recoveries unit to be diligent in their recovery efforts and in for the better management of non-performing facilities. We engage in a very focused multi-level process that helps us to achieve maximum efficiencies and the desired results by reviewing portfolio performance at branch, regional and company level. The team also closely monitors movements within the predefined maturity buckets which help to deliver optimum results for the company.

Our legal division plays a pivotal role in providing assistance and guidance and closely coordinates with the recoveries division to support and expedite recovery action. The legal team encompasses experienced and qualified personnel who assist in maintaining a high level of recoverability.

INFORMATION TECHNOLOGY

IT undoubtedly is a key factor that drives successful business and gaining a competitive edge remains hinged on IT initiatives been timely, efficient and driving productivity, to stay ahead of competition. Sophisticated technology has become a way of life, critical to myriad areas from industry to government, people to infrastructure, ensuring smooth transitioning of systems and processes that bridge gaps and leave no areas untouched.

At UB Finance, the same holds true as technology continues to drive our core being. During the period under review, a number of IT initiatives were launched which enabled the complete automation of a number of processes thereby imbuing speed and efficiency into the organization's operations. This has added impetus to our focused expansion strategy and value additions to our products and services. As a member of the Union Bank Group, our technology function is driven and monitored by Union Bank thus ensuring significant developments in the Company's IT systems. This helps UB Finance to leverage on the efficiencies and prowess of the Bank.

A well-defined IT Security Policy is in place which ensures that all critical systems are validated and tested before implementation. This supports to enhance and maintain information, security controls and systems and safeguard the confidentiality of the information. We also ensured that our disaster site is 100% current and therefore maintains a reliable secure back-up system which would in any eventuality kicks in and will enable the Company to perform at optimum levels. We are also in the process of introducing a comprehensive HR System upgrade with automated applications which will be infused into our operations. All these products and services work on the premise of adding value to a customer's expectations and aspirations.

As we embark into the next year, we intend to implement a whole new comprehensive Information Technology system that will not only improve efficiency and effectiveness, it will also use statistical and analytical data and generate valuable reports that will assist top management to make well informed business decisions. We will continue to further strengthen the security features of the IT platform, and revamping of security infrastructure to meet highest standards.

HUMAN RESOURCES

We have always been proud of our team. They are a key component of our overall strategy that underpins our performance and their development is an integral facet in our Strategic Plan.

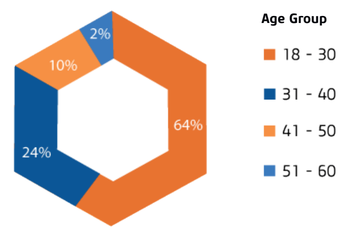
Expansion was a key driver during the year and with an increase in the branch network by 5 branches translated in to an increase in the staff cadre to 252 which is a 51% growth year over year and myriad opportunities for existing staff.

Staff Growth

We continue to focus on building and nurturing a well-balanced workforce. To this end, we are conscious of the necessity and seek to embrace greater diversity, particularly towards achieving a better gender balance and greater ethnic representation.

We continue to maintain our position as a dynamic, vibrant and youthful organization with 64% of the staff composition made up of employees within the age group of 18-30.

Staff Age Analysis



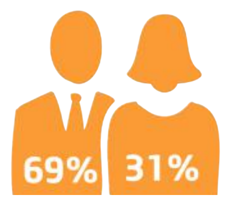
Our staff is a key factor for success. We invest in ongoing training, taking into consideration the business needs, long term goals, staff performance and succession plans. Our team is constantly empowered to develop their competencies and talent to expand horizons in innovation and creativity and be mindful of their personal growth. A total of 6,455 training hours was initiated across the multiple categories during the year. These programmes encompass development initiatives constructed to hone technical and soft skills, leadership development and on-the-job training. The outcome of these programmes is assessed periodically, while programme content is continually analyzed, amended and transformed to suit present and future requirements.

Number of Training Hours

Period	No. of Hours
2013/2014	2077
2014/2015	4278
2015/2016	6455

Infusing best practices into our HR processes, our recruitment practices, remuneration and benefit policy and learning and development initiatives are all constructed on a strong platform of transparency and accountability. We offer rewards and recognition based on performance. This helps us to promote decisiveness and standards of excellence and ensures direct accountability. We also remain totally compliant with all workplace regulations, diktats and guidelines stipulated by the ILO, the government, the regulator and other relevant organisations, practicing a strong culture of non-discrimination in all our practices. We have always upheld the policy of gender equality which transcends to not only recruitment practices, but also remuneration and rewards and into learning and development. We are a fair and just employer, implementing necessary controls and monitoring according to renowned global and local HR practices, but empowering our team to be innovative and creative. Our ultimate goal is to ensure that our team lives and works unitedly, forming a strong culture of camaraderie that would naturally progress to a healthy work life balance. The Company also places highest value on ethics.

Gender Composition



Sophisticated technology continues to play a strategic and integral role in the HR function and the development of the upcoming HR system will help to streamline processes for greater efficiency.

UB Finance also takes on a pivotal role in initiating to increase employee engagements that promote open dialogue and activities that enhance team building and unity. Recreational activities organized by the Company's welfare association strongly help the company to promote the latter through events and programmes for the staff members and their immediate family which include new year celebrations, religious activities, sports events and staff performance appreciation events.

Best Branch of the Year
Kurunegala

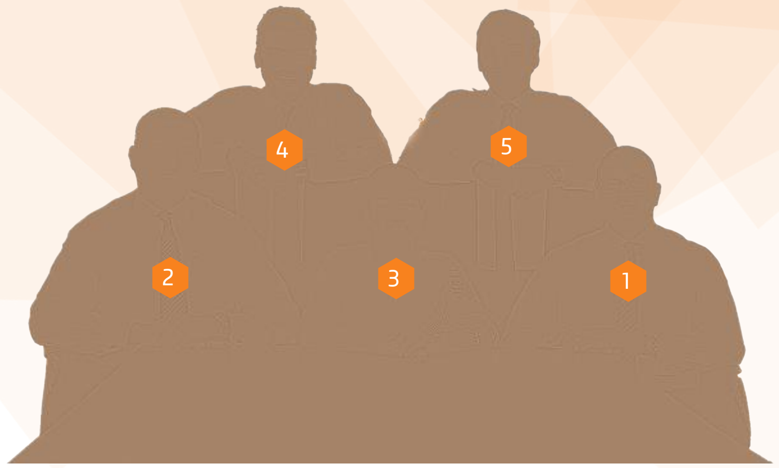
Best Support Services Staff
Manuka Peiris

We foresee the next year auguring well for UBF given the stability and with processes and plans in place, UB Finance is well geared to leverage on emerging opportunities in the long term which is aligned to the company's aspirations set out in its vision.

We believe that the current momentum in the economic front will continue into the future, providing a positive environment for the Financial Services industry to boom. We plan to add new products and services, enter into new market segments and expand geographically thereby creating a stronger platform to contribute to the growth of the national economy and the organization.
-

Corporate Management

1. Mr. Meditha Karunatillaka	Head of HR & Administration
2. Mr. Ruwan Fernando	Head of Legal & Recoveries
3. Ms. Himali Perera	Head of Factoring
4. Mr. Amila Nilaweera	Senior Manager - Credit
5. Mr. Asanka Udugama	Senior Manager - Finance



Divisional Heads

Mr.Lesly Lekamge
Senior Manager - Real Estate & Recoveries

Mr.Chinthaka Gamage
Senior Manager - Marketing & Communication

Mrs.Samanthi Senevirathna
Senior Manager - Fixed Deposits

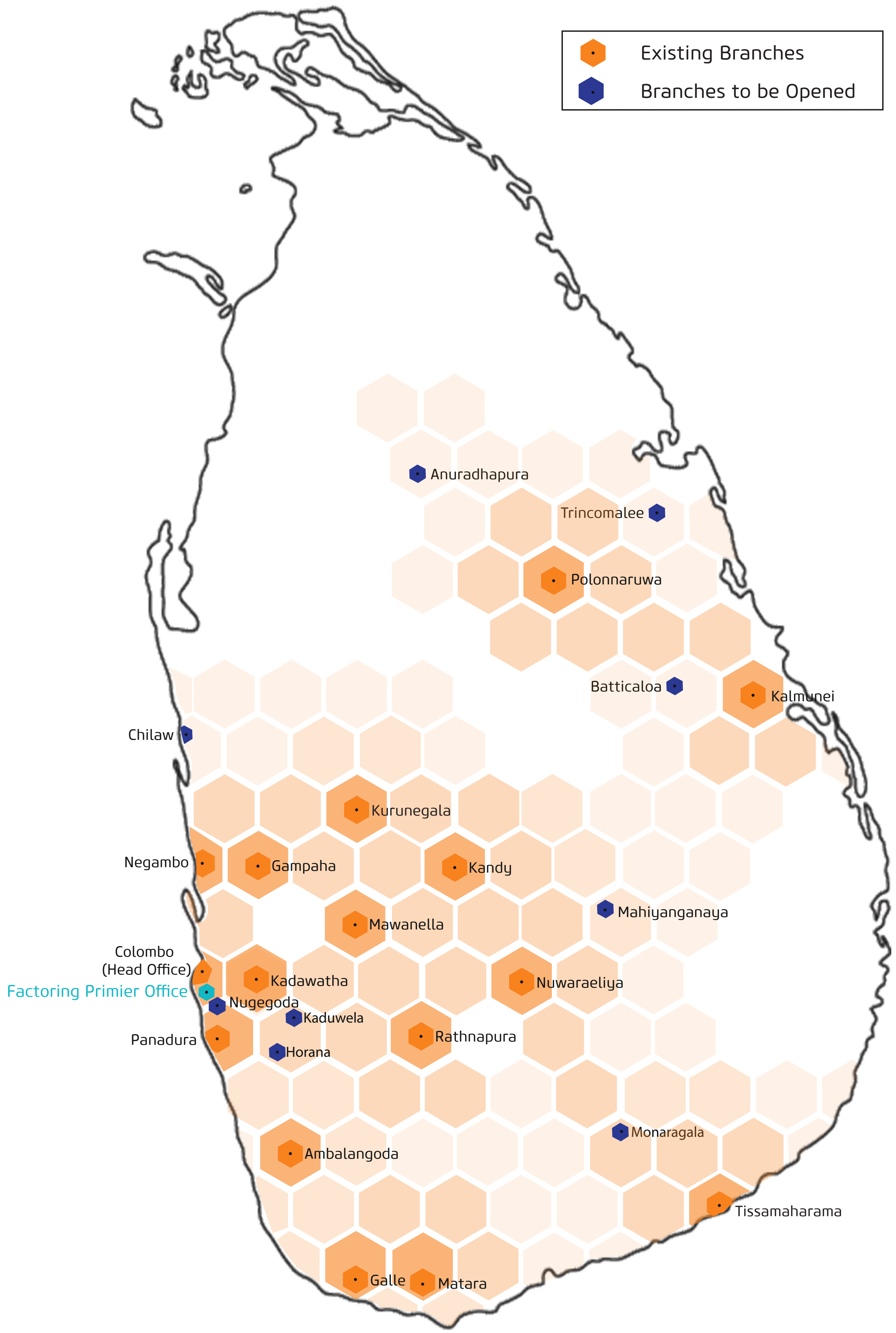
Mr.Pradeep Roshantha
Senior Manager - Leasing

Ms. Dilini Paiva
Senior Manager - Executive PA (CEO's Office)

Mr.Chaminda Weerasinghe
Senior Manager - Legal & Recoveries

Ms. Vilashani Bandara
Manager - Finance Operations

Branch Network Expansion



Branch Managers & Officers in Charge

Mr.Indika Bandara
Manager - Kurunegala

Mr.Dishan Fernando
Manager - Panadura

Mr.Sugath Kumara
Manager - Polonnaruwa

Mr.Jagath Jayathilaka
Manager - Rathnapura

Mr.Nalaka Nanayakkara
Manager - Kadawatha

Mr.Anil Perera
Manager - Gampaha

Mr.Surangika Samaranayaka
Officer In Charge
Galle

Mr.Sumesh Baduge
Officer In Charge
Tissamaharama

Mr.Supun Gunathilaka
Manager - Matara

Mr.Ravi Jayanada
Manager - Kandy

Mr.Deshal Weerage
Manager - Negambo

Mr.Udara Abewickrama
Officer In Charge
Ambalangoda

Mr.Lasantha Piyaweera
Officer In Charge
Nuwaraeliya

Mr.Vijendra Sachin
Officer In Charge
Kalmunei

Mr.Kavinda Tennakoon
Manager - Colombo

Mr.Chandana Rathnayake
Officer In Charge
Mawanella

Highlights of Our Journey...

Polonnaruwa

Gampaha

Kalmunai

Rathnapura

Nuwara Eliya

ANNUAL REPORT OF THE BOARD OF DIRECTORS' ON THE STATE OF AFFAIRS OF THE COMPANY

The Board of Directors of UB Finance Company Limited is presenting the Annual Report and the State of Affairs of the Company together with the Audited Financial Statements for the year ended 31st March 2016 in compliance with Companies Act No. 07 of 2007. This report was approved by the Board of Directors on 29th June 2016.

This report is made in compliance with Section 168 of the Companies Act No. 07 of 2007 and Finance Companies Direction No. 3 of 2008 on Corporate Governance for Registered Finance Companies in Sri Lanka.

The Board of Directors have disclosed information of the Company which they believe is material and in the best interest of the Shareholders and the Company.

Legal Status of the Company

UB Finance Company Limited was incorporated under the Companies Ordinance No.51 of 1938 on 12th July 1961 as a Limited Liability Company under the name of The Finance and Guarantee Company Limited. The Company was re-registered as required under the provisions of the Companies Act No. 7 of 2007 on 26th December 2007. The name of the Company was changed to UB Finance Company Limited on 25th April 2012.

The Company is a Finance Company in terms of the Finance Business Act No.42 of 2011 and is a registered Finance Leasing Establishment in terms of the Finance Leasing Act No. 56 of 2000.

Major Shareholders of the Company

Union Bank of Colombo PLC, the parent Company and ShoreCap II Limited are the major Shareholders of the Company.

Principle Activities and the Nature of the Company

The principle activity of the Company is providing financial services namely, accepting deposits, maintaining savings accounts, lease financing, hire purchasing, mortgage and vehicle loans, factoring and real estate.

Financial Statements

The Complete Financial Statements of the Company made as per 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 in compliance with the requirements of the Companies Act No.7 of 2007, duly signed by two Directors on behalf of the Board are given on pages 53 to 57.

Auditors Report

M/s. Ernst & Young, Chartered Accountants was re-appointed as the External Auditors of the Company at the Annual General Meeting held on 28th September 2015. The report of the Auditors on the Financial Statements of the Company is given on page 52.

Accounting Policies

The Financial Statements made as per 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 in compliance with the requirements of the Companies Act No.7 of 2007 adopting significant accounting policies and notes are given on pages 58 to 102 of this Annual Report.

Branch Network

As at 31st March 2016, the Company has 16 branches including the Head Office.

Financial Reporting & Responsibility for the Accounts

The Directors are satisfied that the financial statements presented on pages 53 to 102 give a true and fair view of the state of affairs of the Company as at 31st March 2016 and the Profit and Loss for the year ended 31st March 2016.

In addition, the Directors are satisfied with the financial statements. Appropriate accounting policies have been selected and applied consistently and reasonable and prudent judgments and estimates have been made and the 'Going Concern' basis has been adopted.

The Directors also confirm that the financial statements of the Company have been prepared in compliance with the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011. The Directors have taken reasonable measures to safeguard the assets of the Company and to establish appropriate systems of internal control with a view to prevent and detect frauds and other irregularities.

The Directors confirm that to the best of their knowledge all taxes, statutory dues and levies payable by the Company as at the reporting date have been paid or where relevant provided for.

Payments made to Directors

The Directors fees, remuneration and payments made are disclosed on page 100 of this Annual Report.

Shareholder Register

As at 31st March 2016, the total number of Ordinary Voting Shares issued by the Company was 1,483,615,757 among 807 Ordinary Voting Shareholders.

As at 31st March 2016, the total number of Ordinary Non Voting Shares issued by the Company was 211,547,127, to the Ordinary Non-Voting Shareholders. The Company has resolved some of the issues with regard to the discrepancies pertaining to the Ordinary Non-Voting Share Register Case No. HC/CIVIL/60/2013/CO, the court sanctioned and approved rectified share register is currently being used.

Director's & Officer's Liability Policy

Union Bank of Colombo PLC, the Parent Company has obtained a Directors & Officers Liability Policy for a cover of LKR 300 million from AIA Insurance Lanka PLC covering the Directors interests of the subsidiaries.

The Directorate

The Directors of the Company as at 31st March 2016;

Name of the Director	Position	Alternate Director	Date of Appointment
Mr. Alexis Indrajit Lovell, MBE	Chairman		01/11/2011
Mr. Ananda Wijetilaka Atukorala	Deputy Chairman / Senior Director		11/07/2012
Mr. Davis Frederick Golding	Director	Rienzie Anthony Fernando	01/11/2011
Mr. Kenneth Kusinath Upali Wijeyesekera	Director		01/11/2011
Mr. Indrajit Asela Wickramasinghe	Director		31/12/2014
Mr. Malinda Namal Samaratunga	Director		01/11/2011
Mr. Chandrakumar Ramachandra	Director		12/03/2014
Mr. Ranvir Dewan	Director		02/11/2015
Mr. Ransith Nishantha Karunaratne	Director / CEO		12/03/2014

Mr. Alexis Lovell, MBE Chairman of the Company is a Non Independent Non Executive Director. Hence, Mr. Ananda Atukorala was appointed as the Senior Director to the Board. Other Non Independent Non Executive Directors are Mr. Davis Golding, Mr. Malinda Samarathunga, Mr. Indrajit Wickramasinghe and Mr. Ranvir Dewan.

Mr. Ananda Atukorala , Mr. Upali Wijeyesekera and Mr. Chandrakumar Ramachandra are the Independent Non Executive Directors of the Company.

Mr. Ransith Karunaratne is the Executive Director and Chief Executive Officer of the Company.

Shareholdings of Directors in the Company / Parent Company:

Shareholdings of Directors in the Company / Parent Company as at 31st March 2016;

Name of the Director	No. of Voting Shares in the Company	No. of Non Voting Shares in the Company	No. of Voting Shares in the Parent Company
Mr. Alexis Indrajit Lovell, MBE	None	None	22,953,780
Mr. Ananda Wijetilaka Atukorala	10,010	None	18,745
Mr. Davis Frederick Golding	None	None	None
Mr. Kenneth Kusinath Upali Wijeyesekera	57	690,770	200
Mr. Indrajit Asela Wickramasinghe	None	None	None
Mr. Malinda Namal Samaratunga	None	None	None
Mr. Chandrakumar Ramachandra	None	None	None
Mr. Ranvir Dewan	None	None	None
Mr. Ransith Nishantha Karunaratne	None	None	None

Set out below are the directorships held by the Directors in other Institutions as at 31st March 2016

Name of the Director	No. of Directorates/ equivalent positions held in companies/ societies/ bodies corporate as at 31.03.2015
Mr. Alexis Indrajit Lovell, MBE	**Chairman** 01. National Asset Management Limited **Deputy Chairman** 01. Union Bank of Colombo PLC **Director** 02. Real Investment Holdings Pvt Ltd **Principal** 01. JI Capital Limited
Mr. Ananda Wijetilaka Atukorala	**Independent Non Executive Director** 01. DFCC Bank PLC 02. United Motors Lanka PLC 03. Orient Finance PLC 04. Pragnya Tech Parks Lanka (Pvt) Ltd 05. Unawatuna Boutique Resort (Pvt) Ltd **Non Executive Director** 01. TVS Lanka Ltd 02. Unimo Enterprises Ltd 03. Arni Holdings & Investments (Pvt) Ltd
Mr. Davis Frederick Golding	**Director** 01. Satin Creditcare Network Ltd, India 02. Equator Capital Partners, LLC, USA 03. Chaitanya Rural Intermediation Development - Services Pvt. Limited, India
Mr. Kenneth Kusinath Upali Wijeyesekera	**Director** 01. Property Development PLC
Mr. Indrajit Asela Wickramasinghe	**Director / Chief Executive Officer** 01. Union Bank of Colombo PLC **Director** 01. National Asset Management Limited
Mr. Malinda Namal Samaratunga	**Non Executive Director** 01. Namal Asset Management Limited
Mr. Chandrakumar Ramachandra	**Senior Director** 01. Asia Asset Finance PLC **Director** 01. Ceylon Galvanishing Industries Ltd 02. N. Vaitilingam & Co (Pvt) Ltd **Competent Authority** 01. Hotel Developers Ltd
Mr. Ranvir Dewan	**Director** 01. Union Bank of Colombo PLC 02. Shriram City Union Finance Limited
Mr. Ransith Nishantha Karunaratne	**Non Executive Director/Treasurer** 01. Lanka Evangelical Alliance Development Service

UB FINANCE
A UNION BANK COMPANY

New Appointments and Resignation of Directors

Mr.Ranvir Dewan was appointed as a Director with effect from 2nd november 2015.

Register of Directors and Secretaries

The Company maintains a registry of Directors and Secretaries. The names and addresses and their business occupations are set out in this register.

Communication

The Company has a Board approved Communication Policy detailing its communication processes and channels with all its stakeholders.

The Directors declare their interest in contracts at meetings and have refrained from voting when decisions are taken in respect of these.

Directors' Transactions with the Company / Related Party Disclosures

Directors' transactions with the Company / Related party disclosure are disclosed on page 100.

Post Balance Sheet Events

There were no post balance sheet events.

Interest Register

The Company is adhering to the requirements stipulated in the Companies Act No.7 of 2007 and an Interest Register is maintained in line with the said article. Monthly the Board of Directors declare all related party transactions at the Board Meeting and accordingly the interest register is updated.

Compliance with Rules & Regulations including Corporate Governance Practices

The Board of Directors act in compliance with the statutory requirements and has continuously communicated with the regulatory and supervisory bodies. A compliance report is tabled at the monthly Board meeting informing the status of compliance levels as per the statutory requirements.

The Board has delegated its business operations to the Key Management Personnel led by the Chief Executive Officer and business operations are monitored by the Board. The Board Committee members liaise with the Key Management Personnel in their day to day activities whenever necessary to ensure the safety and soundness of the Company.

The Board of Directors have always taken decisions in accordance with the prevailing laws and regulations of the Country and those specifically imposed by the regulatory bodies.

The composition of the Board Committees as at 31st March 2016 is as follows ;

Audit Committee

- Mr. Chandrakumar Ramachandra (Chairman)
- Mr. Ananda Wijetilaka Atukorala
- Mr. Davis Frederick Golding or his alternate
- Mr. Malinda Namal Samaratunga

Integrated Risk Management Committee

- Mr. Ananda Wijetilaka Atukorala (Chairman)
- Mr. Davis Frederick Golding or his alternate
- Mr. Indrajit Asela Wickramasinghe
- Mr. Chandrakumar Ramachandra
- Mr. Ransith Nishantha Karunaratne

Human Resource and Remuneration Committee

- Mr. Kenneth Kusinath Upali Wijeyesekera (Chairman)
- Mr. Alexis Indrajit Lovell, MBE
- Mr. Ananda Wijetilaka Atukorala
- Mr. Davis Frederick Golding or his alternate

Strategic Planning Committee

- Mr. Alexis Indrajit Lovell, MBE (Chairman)
- Mr. Ananda Wijetilaka Atukorala
- Mr. Davis Frederick Golding or his alternate
- Mr. Indrajit Asela Wickramasinghe
- Mr. Malinda Namal Samaratunga

Board Credit Committee

- Mr. Ananda Wijetilaka Atukorala (Chairman)
- Mr. Alexis Indrajit Lovell, MBE
- Mr. Davis Frederick Golding or his alternate
- Mr. Kenneth Kusinath Upali Wijeyesekera
- Mr. Chandrakumar Ramachandra

Board Committee on Land Matters

- Mr. Alexis Indrajit Lovell, MBE (Chairman)
- Mr. Ananda Wijetilaka Atukorala
- Mr. Davis Frederick Golding or his alternate
- Mr. Kenneth Kusinath Upali Wijeyesekera
- Mr. Malinda Namal Samaratunga

Number of Meetings Held and Attendance

Name of the Director	Board Meetings		Audit Committee		Integrated Risk Management Committee		Human Resources & Remuneration Committee		Strategic Committee		Credit Committee		Committee on Land matters	
	E	A	E	A	E	A	E	A	E	A	E	A	E	A
Mr. Alexis Indrajit Lovell, MBE	13	10	-	-	-	-	4	3	4	2	4	0	4	4
Mr. Ananda Wijetilaka Atukorala	13	11	6	4	4	4	4	4	4	4	4	4	4	3
Mr. Davis Frederick Golding or his alternate	13	11	6	5	4	4	4	4	4	4	4	2	4	4
Mr. Kenneth Kusinath Upali Wijeyesekera	13	10	-	-	-	-	4	4	-	-	4	4	4	2
Mr. Indrajit Asela Wickramasinghe	13	12	-	-	4	3	-	-	4	4	-	-	-	-
Mr. Malinda Namal Samaratunga	13	11	6	5	-	-	-	-	4	4	-	-	4	2
Mr. Chandrakumar Ramachandra	13	13	6	6	4	4	-	-	-	-	4	4	-	-
Mr. Ranvir Dewan (appointed on 02/11/2015)	5	3	-	-	-	-	-	-	-	-	-	-	-	-
Mr. Ransith Nishantha Karunaratne	13	13	-	-	4	3	-	-	-	-	-	-	-	-

E - Eligibility / **A** - Attendance

Annual General Meeting

The Board takes the opportunity to address the issues of shareholders at the Annual General Meeting. The Financial Statement of the Company is prepared according to the accepted Rules and Accounting Standards. The Financial Accounts were published and also circulated prior to the Annual General Meeting. A copy of the Notice of Meeting is attached to this Annual Report.

For and on behalf of the Board of Directors

Alexis Indrajit Lovell, MBE
Chairman

Ransith Karunaratne
Director / Chief Executive Officer

Lasanthi Abeykoon
Company Secretaries
P W Corparate Secretarial (Pvt) Ltd

Section	Principle	Degree of Compliance
2.00	**The Responsibilities of the Board of Directors**	
2.01	Strengthening the safety and soundness of the Company	
	(a) Approve, oversee and communicate the strategic objectives and corporate values	A Board Approved Strategic Plan for the financial years commencing from 2014/15, to 2016/17 is in place which is named as the "The Strategic Intent". This plan outlines the corporate values and medium term objectives of the company. The budget had been reviewed and revised for the three years commencing from 2016/17 to 2018/19. These strategic objectives and corporate values have been communicated to the Management and are discussed and reviewed by the Board, Board Committees and Management periodically.
	(b) Approve the overall business strategy, including the overall risk policy and risk management	The strategic intent document has been approved by the Board. The company is in the process of developing an overall risk policy with consultation of the Group Integrated Risk Management Committee.
	(c) Identifying and managing risk.	The Company has an Integrated Risk Management Committee which has a mandate to identify the overall risk of the Company. A framework is in place for the Management and staff to report risk events to the Integrated Risk Management Committee. The composition of the Integrated Risk Management Committee and frequency of meetings is disclosed under the "Annual Report of the Board of Directors on the state of affairs of the Company".
	(d) Communication policy with all stakeholders	The Company has a Board approved communication policy.
	(e) Integrity of the internal control system and management information system	There is a mechanism in the company to identify the accuracy of the internal controls by the Board of Directors through the process over design and effectiveness of internal control over financial reporting. Further Internal Audit Division of the company adds value to the process verifying the effectiveness of the above process. Financial information and reporting submitted to the Board are being checked and verified through the Financial audit. The Company will initiate a process by the Internal Audit dept. to review the accuracy of all Non-financial information which is used by the Board and the Board sub committees. The findings and the process , will be presented to the Board, for the Board to review the adequacy and the integrity of management information.
	(f) Identifying and designating Key Management Personnel.	The Board has identified The Board of Directors, Chief Executive Officer, the Chief Operating Officer, the Senior Finance Manager, and the Compliance Officer as Key Management Personnel.
	(g) Authority and responsibilities of the Board and Key Management Personnel	Article 99-104 of the Company's Articles of Association defines the authority of Board Directors. The Company has a Board approved schedule of matters specifically reserved for the Board defining the areas of authority and key responsibilities of the Board of Directors which is covered under the Code of Corporate Governance which has been approved by the Board. The areas of authority and key responsibilities of the KMP's are defined in their job descriptions which will be approved by the Board.

Section	Principle	Degree of Compliance
	(h) Oversight of the affairs of the Finance Company by Key Management Personnel.	Board has a process for appropriate oversight of the affairs of the Company by Key Management Personnel. Affairs of the Company are presented by the Key Management Personnel to the Board for their information, discussion, review and approval at Board Sub Committee meetings and the monthly Board meetings.
	(i) Assessment of effectiveness of own governance practice.	The Board appraises the performance of the Directors through an annual Board performance evaluation filled by each Director. As per the Articles of Association, the Board has the power to make decisions on selection, nomination and election of Directors. Directors are identified and nominated to the Board based on diversity of skills and experience in order to bring about an objective judgment on issues of strategy, performance and resources. Election of Directors is effected in accordance with the requirements of the Companies Act No 07 of 2007. The Board has entrusted this task to the "Board HR and Remuneration Committee" for future nominations. Article 89 & 90 and Article 86 of the Articles of Association address the provisions on management of conflicts of interest of Directors. Conflicts of interests are managed on a monthly basis where Directors disclose their Directorships in other companies. Key Management Personnel declares any interest annually. In the event a conflict is identified corrective action is taken immediately. Improvements to the above process are being made on a continuous basis.
	(j) Succession plan for Key Management Personnel:	The Company has a Board approved succession plan in place covering all Key Management Personnel.
	(k) Regular meetings with the Key Management Personnel	The members of the Corporate Management regularly prepare reviews, make presentations and take part in discussions on their areas of responsibility at Management Meetings, Asset Liability Committee meetings, Board Sub Committee Meetings and Board Meetings.
	(l) Regulatory environment	The Board reviews the Company's compliance with the regulatory environment via monthly compliance reports submitted to the Board by the Compliance Officer/Management. An effective relationship with the regulator is maintained by way of active participation by Chief Executive Officer at quarterly meetings and other meetings, trainings and workshops conducted by the regulator.
	(m) Hiring and oversight of external auditors	Company's Articles of Association outline the process of engaging the services of an External Auditor. As per the Articles of association the External Auditor is appointed at the Annual General Meeting of the Company. In line with the Audit Committee Charter the Board has entrusted the Audit Committee with the responsibility of engagement and oversight of the External Auditors.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
2.02	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	The Chairman and the Chief Executive Officer of the Company have been appointed by the Board and the functions and responsibilities of the said have been defined and approved by the Board in the "Functions and Responsibilities of the Chairman, Chief Executive Officer and Senior Director of UB Finance Company Limited". The Chairman is responsible for leading the Board and Chief Executive Officer is in charge and responsible for the overall Management of the Company.
2.03	Directors ability to seek independent professional advice.	The Directors are able to obtain independent professional advice as and when necessary at Company expense and the Board has obtained professional advice in appropriate circumstances .The Board approved policy will be implemented.
2.04	Dealing with conflict of interests	Directors Interests and Shareholdings and conflicts of interest (if any) are disclosed at monthly Board meetings. Directors abstain from voting on any Board resolution when there is conflict of interest and they are not counted in the quorum.
2.05	Formal schedule of matters specifically reserved for the Board decision	The Board has a formal schedule of matters specifically reserved to it for decision which is defined in the "Code of Corporate Governance" of the Company. The Board has put in place Board Sub Committees, systems and controls to facilitate the effective discharge of Board functions and to ensure that the direction and control of the Company is firmly under Board control and authority.
2.06	Situation of insolvency issue	During the period no such situation has arisen. In the event of such a possibility the Board will take necessary actions to comply.
2.07	Publish corporate governance report in Annual report	This report serves the said requirement.
2.08	Annual self- assessment by the Directors	The Company has adopted a scheme of self assessment to be undertaken by each Director annually and is filed with the Company Secretary.
3.00	**Meetings of the Board**	
3.01	Regular Board meetings	The Board meets regularly at monthly intervals at a minimum and during the year the Board held thirteen Board meetings. There were instances where the Board's consent had been obtained through the circulation of written or electronic resolutions/ papers which were subsequently ratified by the Board.
3.02	Arrangements for Directors to include matters and proposals in the agenda	All Board members are given an opportunity to include matters and proposals in the agenda for discussion at Board meetings. A formal procedure for this purpose will be established.
3.03	Notice of meetings	As a practice, Directors are given notice of the meetings at least 7 days prior with respect of regular Board Meetings.
3.04	Directors attendance at Board meetings	Directors have attended at least two thirds of the meetings held during the year and no Director has been absent for three consecutive regular Board meetings during the year 2015/16.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
3.05	Appointment of a Company Secretary to handle the secretarial services to the Board	M/s.PW Corporate Secretarial (Pvt.) Ltd. was appointed by the Board as the new Company Secretary on the 29th of February 2016 and has acted in this role to date. M/s Business Intelligence (Pvt) Ltd acted as the Company Secretary during the initial part of the financial year. The Company Secretary ensures that proper Board procedures are followed and that applicable rules and regulations are brought to the notice of the Board.
3.06	Preparation of agenda for a Board meeting by the Company secretary	The Agenda is prepared by the Company Secretary
3.07	Directors access to advice and services of the Company Secretary	All the Directors have access to obtain advice and services from the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions rules and regulations are followed. The Company will further improve the procedure for better governance.
3.08	Maintenance of Board minutes	The Company Secretary maintains the minutes and the minutes are open for inspection at any reasonable time to any Director. The Company will further im-prove the procedure for better governance.
3.09	Minutes to have sufficient details and serve as a reference for regulators and supervisory authorities	The Company Secretary maintains detailed minutes of Board meetings covering the requirements of the direction. Minutes are approved by the Chairman and the members of the Board.
4.00	**Compositions Of the Board**	
4.01	The number of Directors	The number of Directors on the Board has not been less than 5 or more than 13 during the Financial Year.The Board Consist of 08 non-executive directors and one Executive director.
4.02	Period of service of a Director	The total period of service of all Non-Executive Directors does not exceed nine years.
4.03	Board balance	The composition of Executive Directors does not exceed one half of the total number of Directors.
4.04	Independent Non Executive Directors	The number of Independent Non-Executive Directors of the Board is one fourth of the total number of Directors.
4.05	Appointment of an Alternate Director to represent an Independent Non Executive Director.	No such situation has arisen in 2015/16.
4.06	Skills and Experience of Non Executive Directors	The Directors are eminent persons with knowledge, expertise and experience in different business sectors which has added diversity and brought about better judgment in matters relating to Strategy, Performance and Resources.
4.07	More than half the quorum of Non Executive Directors in Board meetings.	All the Board meetings held during the financial year are duly constituted with more than one half of the number of Directors present at such meetings being Non-Executive Directors.
4.08	Expressly identification of the Independent Non- Executive Directors in corporate communications and disclose the details of Directors	The details of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are disclosed in the "Annual Report of the Board of Directors on the affairs of the Company".
4.09	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	Company's Articles of Association address the procedure for appointment and removal of Directors.

Section	Principle	Degree of Compliance
4.10	Directors appointed to fill a casual vacancy to be re-elected at the first Annual general meeting after their appointment	All Directors appointed to the Board are subject to re-election by the Shareholders at the first Annual General Meeting after their appointment. The Articles of Association addresses the procedure to fill a casual vacancy subject to their appointment.
4.11	Communication of reasons for removal or resignation of Directors.	The Board announces such situations to the shareholders at the Annual General Meeting. Cessation of office of the Directors has been duly communicated to the Director of Supervision of Non Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory authorities.
5.00	**Criterias to assess the fitness and propriety of Directors**	
5.01	The age of Director shall not exceed 70 years.	All the Directors as at 31st March 2016 are below the age of 70 years and the Company Secretary monitors the compliance.
5.02	Directors shall not hold office as a Director for more than 20 companies/ societies/ corporate bodies including associate and subsidiary companies	The total number of positions held as a Director or any other equivalent position in companies, societies, including subsidiaries or Associate Companies of the Finance Company is less than 20.
6.00	**Delegation of Functions**	
6.01	Delegation of work to the Management.	All delegations are made in a manner that would not hinder the Board's ability to discharge its functions.
6.02	Periodical evaluation of the delegation process	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company.
7.00	**The Chairman and the Chief Executive Officer**	
7.01	Division of responsibilities of the Chairman and Chief Executive Officer	There is a clear separation of duties between the roles of the Chairman and the Chief Executive Officer. These positions are held by two separate individuals who have been appointed by the Board.
7.02	Chairman preferably an Independent Non- Executive Director and if not appoint a Senior Director.	During the period of review as the Chairman was not an Independent Director. The Board designated an Independent Non-Executive Director as the Senior Director. The Senior Director's details are disclosed in the Annual Report.
7.03	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board members.	The Board is aware that there is no relationships whatsoever, including financial, business, family, any other material relationship between the Chairman and the Chief Executive Officer. However the Company will improve on the process to identify the required relationships
7.04	Chairman to: (a) Provide leadership to the Board (b) Ensure that the Board works effectively and discharges its responsibilities; and (c) Ensure that all key issues are discussed by the Board in a timely manner.	The Chairman provides leadership to the Board and ensures that the Board works effectively when discharging its responsibilities and that all key issues are discussed by the Board in a timely manner. The Board has a scheme of self assessment for the Board of Directors.

Section	Principle	Degree of Compliance
7.05	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary.	The Chairman & Board of Directors have delegated this function to the Company Secretary who prepares and circulates the agenda prior to the Board Meeting.
7.06	Ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	The Chairman ensures that all the Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and Board papers, with sufficient time prior to the meeting.
7.07	Encourage each Director to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Finance Company.	The Chairman encourages all Directors to actively participate in Board affairs.
7.08	Facilitate effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	The Chairman facilitates the effective contribution of all Directors. Executive and Non-Executive Directors work together in the best interest of the Company.
7.09	Refrain from direct supervision of Key Management Personnel or executive duties.	The Chairman is a Non-Executive Director and the Chairman does not get directly involved in the supervision of Key Management Personnel or engage in any other executive duties.
7.10	Maintain effective communication with Shareholders.	The AGM of the Company is the main forum where the Board maintains effective communication with Shareholders and that the views of Shareholders are communicated to the Board. Adequate time is allocated to the Shareholders to raise any questions at Shareholder meetings. All queries are answered by Chairman, the Board of Directors, Chief Executive Officer and other Key Management Personnel.
7.11	Chief Executive Officer functions as the apex executive-in- charge of the day to day operations and business	The Chief Executive Officer is responsible for the day-to-day operations and business of the Company.
8.00	**Board appointed Committees**	
8.01	Establishing Board committees, their functions and reporting.	The following Board sub committees have been appointed by the Board and requires each such committee to report to the Board: 1. Integrated Risk Management Committee 2. Board Audit Committee 3. Board Strategic Planning Committee 4. Board Credit Committee 5. Board HR & Remuneration Committee 6. Board IT Committee 7. Board Committee on Land Matters Reports of such committees are submitted to the Board for review and approval

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
8.02	**Audit committee**	
A	The following shall apply in relation to the Audit Committee : The Chairman of the committee to be a Non-Executive Director with relevant qualifications and experience.	The Chairman of the Board Audit Committee is an Independent Non-Executive Director who is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.
B	All members of the committee to be non executive Directors.	All the members of the Board Audit Committee are Non-Executive Directors.
C	Duties of the committee: (i) the appointment of the external auditor (ii) The implementation of the Central Bank guidelines (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the auditor.	Committee has to recommend appointment of the external auditor for audit services. The evaluation is carried out by the Board Audit Committee in relation to Central Bank of Sri Lanka Directions & Guidelines. All matters regarding Central Bank of Sri Lanka Directions & Guidelines and new Accounting Standards are discussed and advised to the Board and Management by the Audit Committee and the Management implements same. The Committee ensures that the requirement of rotation of External Audit Engagement Partner once in every 5 years is met. The Audit Committee has the primary responsibility for making recommendations on the appointment, re-appointment or removal of the External Auditor in line with professional standards and regulatory requirements.
D	Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes.	External Auditors are independent and report directly to the Board Audit Committee of the Company. In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking the regulations and guidelines.
E	Develop and implement a policy on the engagement of an External Auditor to provide non-audit services.	The Company has a procedure for engagement of external professionals for advice and services required by the Company from time to time as given in the "Code of Corporate Governance", however it is not specific with regard to the engagement of External Auditors for non-audit services, as such the Company will further improve the procedure for better governance. In the event of such an engagement the management will to the best of its ability, ensure that the independence of the auditor is not compromised and Audit Committee approval will be sorted.
F	Determine the nature and the scope of the External Audit.	The committee has to discuss and finalize the nature and scope of the audit with the external auditors. The auditors discussed on the scope of the audit with the management. The committee reviewed and approved the scope of the audit by approving the audit engagement letters.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
G	Review the financial information of the Company.	Financial Statements are circulated to the Audit Committee. A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit adjustments and compliance with statutory requirements takes place and obtains required clarifications in respect of all areas before being recommended for the Board Approval.
H	Meeting of External Auditors to discuss issues and problems of Interim and Final Audits in the absence of Key Management Personnel.	The Board Audit Committee has met and had discussions with the External Auditors with and without the presence of the Executive Management as required.
I	Reviewing of the External Auditors' management letter and the response thereto.	The committee reviewed the external auditor's management letter through circulation.
J	Review of the Internal Audit function (i) Review scope,functions and resources (ii) Review of internal audit program (iii) Review internal audit department (iv) Recommendations on internal audit functions. (v) Independence of internal audit functions	Committee has reviewed the adequacy of scope of internal audit function and the internal audit program for the year ended 2015/16. The Board Audit Committee has discussed and reviewed the findings of the Internal Audit Reports prepared by the Union Bank Internal Audit team. The Union Bank Audit team directly reports to the Audit Committee with a dotted line to the Chief Executive Officer
K	Consideration about the internal investigations and management's responses.	The committee considers the major findings of internal audit investigations and Management's responses thereto
L	Attendees of the Audit Committee meeting with Corporate Management and external auditors.	Other Board members and the Chief Executive Officer also attend meetings upon the invitation of the committee. The Committee has met the External Auditors without the Executive Management present.
M	Explicit authority, adequate resources, access to information; and obtain external professional advice where ever necessary.	The Board Audit Committee is guided by a Board approved "Audit Committee Charter" which sets out authority and responsibility of the said Committee. The Board Audit Committee is authorized to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Board Audit Committee also has full access to information in order to investigate into matters relating to any matter within its terms of reference.
N	Regular meetings	The Committee meets regularly. The agenda and the discussion material are circulated in advance, and the conclusions are recorded in the meeting minutes.
O	Disclosure in the Annual report	The Report of the Audit Committee includes the details of the activities, number of meetings held during the year and the Directors attendance to the Audit Committee meetings.
P	Maintain minutes of meetings	The Secretary of the Audit Committee records and maintains all minutes of the meetings.

Section	Principle	Degree of Compliance
Q	Whistle-Blower Policy	The Company has a "Whistle Blowing Policy" 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 Board Audit Committee ensures that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action. The Board Audit Committee also acts as the key representative body for overseeing the Finance Company's relations with the External Auditor.
8.03	**Integrated Risk Management Committee**	
	The following shall apply in relation to the Integrated Risk Management Committee:	
A	The composition of Integrated Risk Management Committee.	The Integrated Risk Management Committee consists of four Non Executive Directors, Chief Executive Officer, Chief Operating Officer,Senior Manager Finance.
B	Periodical risk assessment	The Company prepares monthly risk reports to assess the risks on a monthly basis. This process will be further strengthened to cover all other risks such as market, liquidity and environmental risks etc. on a monthly basis through appropriate risk indicators and management information.
C	Review and measurement of management level committee risk	The Integrated Risk Management Committee reviews adequacy and effectiveness of the credit committee. Quantitative and qualitative risk limits have been set which will be further improved in the following financial year.
D	Corrective action to mitigate the risk.	The process to review the risk indicators will be further strengthened in the coming financial year for further improvement of the risk management of the Company.
E	Frequency of meetings	The Integrated Risk Management Committee had four meetings during the Financial Year.
F	Actions against the officers responsible for failures to identify risks and take prompt corrective actions	The Integrated Risk Management Committee has a process in place for the Management to identify report and take corrective action on specific risks faced by the Company. Any failures/non compliances in this regard will be referred to the HR Department for necessary action.
G	Risk assessment report to the Board	The Integrated Risk Management Committee has kept the Board informed of their risk assessment of the Company by forwarding a risk report and also tabling the minutes at the Board meeting.

Section	Principle	Degree of Compliance
H	Establishment of a compliance function	The Company's compliance with laws and regulations are monitored by the Compliance Officer, Integrated Risk Management Committee and Audit Committee. The Compliance function will have to be further strengthened by the Compliance Officer assessing the compliance with approved policies on all areas of business operations.
9.00	**Related party transactions**	
9.01	Avoid conflicts of interest that arise from transactions of the Company with related parties.	The "Code of Corporate Governance" approved by the Board covers the definition of related parties and how to handle transactions entered into with related parties.
9.02	Related party transactions	Transactions carried out with Related Parties are disclosed in the Financial Statements on 'Related Party Disclosures'. The Company is in the process of improving the monitoring mechanism in this regard.
9.03	Monitoring of related party transactions defined as more favourable transactions	The Company has not engaged in transactions with related parties in a manner that has granted such parties a "more favourable treatment" than that is accorded to other similar constituents of the Company. The Board will improve on the process for identifying related parties through the branch network/system to identify, and avoid granting more favorable treatment to the related parties as defined in Direction 9(2).
10.00	**Disclosures**	
10.01	Published interim and Annual Financial Statements based on applicable accounting standards and published in Sinhala, Tamil and English	Audited Financial Statements for 2015/16 were prepared and published in the News Papers in all three languages in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards.
10.02	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.	a) Disclosed in the "Annual Report of the Board of Directors on the State of Affairs of the Company".
	b) A report by the Board on the Finance Company's internal control mechanism.	b) Disclosed in the "Directors Statement on Internal Controls Over Financial Reporting"
	c) The external auditor's certification on the effectiveness of the internal control mechanism.	c) Board has obtained a certification from External Auditors on the effectiveness of the internal controls over financial reporting.

Section	Principle	Degree of Compliance
	d) Details of Directors	d) Details of Directors have been disclosed in the "Annual Report of the Board of Directors on the State of Affairs of the Company".
	e) Fees/remuneration paid by the Finance Company to the Directors in aggregate	e) Disclosed in Note No. 36 of the 2015/16 Financials under "Transactions with Related Parties"
	f) Total net accommodation and the net accommodations outstanding To the related parties as a percentage of the capital funds	f) There is no accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties.
	g) The aggregate values of remuneration paid and the values of the transactions of the Finance Company with its Key Management Personnel	g) Disclosed in Note No. 36 of the 2015/16 Financials under "Transactions with Related Parties"
	h) A report confirming compliance with prudential requirements, regulators laws and internal controls	h) Disclosed in the "Directors Statement on Internal Controls Over Financial Reporting" & "The Annual Report of the Board of Directors on the State of Affairs of the Company"
	i) Non compliance reporting	i) There are no non compliances requiring disclosure.
	j) The external auditor's certification of the compliance with the corporate governance direction	j)The external Auditor's certification on the compliance with the Corporate Governance direction issued by the Monetary Board has been obtained.

AUDIT COMMITTEE REPORT

Composition and Performance

At the end of the year, the Audit Committee as appointed by the Board comprised of the following Non Executive Directors of the company;

Mr Chandrakumar Ramachandra (Chairman)
Independent Non Executive Director
Mr Ananda Wijetilaka Atukorala
Independent Non Executive Director
Mr Davis Frederick Golding
Non Executive Director
Mr Malinda Namal Samaratunga
Non Executive Director

The Chief Executive Officer, Chief Operating Officer, Senior Manager – Finance and other Senior Managers attended meetings by invitation as necessary to brief the Audit Committee on specific matters. The External Auditors also attended meetings by invitation whenever necessary.

The activities and views of the Committee have been communicated to the Board of Directors monthly through verbal briefings,formal updates and by tabling the minutes of the Committee's meetings.

Attendance of Committee members at each meeting is given in the table on page 37 of the Annual Report.

The Role of the Audit Committee

The Board Audit Committee assists the Board of Directors in fulfilling effectively it's responsibilities relating to financial and other related affairs of the Company. The committee is empowered to oversee:

- Preparation, presentation and adequacy of disclosures in the Financial Statements, in accord ance with Sri Lanka Accounting Standards.
- Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.
- Processes to ensure that the Company's internal controls and risk management procedures are adequate to meet the requirements of the Sri Lanka Accounting Standards.

Financial Reporting

The Committee reviewed the Company's Interim and Annual Financial Statements and other financial information prior to publication.

The Committee reviewed and discussed with the Management and the External Auditors the appropriateness of critical accounting policies and material judgmental matters where judgment was applied, the practices and related changes thereto, financial reporting controls and the extent of compliance with accounting policies.

Internal Audit and Internal Controls

The Company has engaged the services of the group internal audit division of Union Bank to carry out the internal audit function of the company.

During the year the Audit Committee reviewed the performance of the internal audit function, the findings of Internal audits completed, corrective action taken by the Management and their evaluation of the Company's internal control system.The deficiencies and lapses reported by both Internal Auditors are discussed with Management and recommendations given by them are implemented.

External Audit

The Committee assists the Board of Directors in engaging External Auditors for Audit and Non Audit services in compliance with the Statutes.The Committee discusses the audit plan, key audit issues and their resolution, management response, proposed remuneration etc pertaining to the External Auditors.

The Committee met the external Auditors with the Management during the course of the external audit to discuss all significant audit issues and to ensure that the Financial Statements complied with accounting standards and other relevant laws and regulations.

The reappointment of External Auditor Messrs Ernst & Young for the next financial year is recommended subject to the approval of the shareholders at the AGM.

Chandrakumar Ramachandra
Chairman – Board Audit Committee.

RISK MANAGEMENT COMMITTEE REPORT

Purpose

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risks faced by the Company in its business operations and ensures adequacy and effectiveness of the risk management framework of the company.

Composition

The Committee comprises the following members:

Mr. Ananda Atukorala Non Executive Independent Director	Committee Chairman
Mr. Davis Golding Non Executive Director	Committee Member
Mr. Indrajit Wickremasinghe Non Executive Director	Committee Member
Mr. Chandrakumar Ramachandra Non Executive Independent Director	Committee Member
Mr. Ransith Karunaratne Director / CEO	Committee Member

Terms of Reference

The IRMC has adopted the provisions of Sec 8 (3) of the finance companies corporate governance direction No. 3 of 2008 issued by the monetary Board of Central Bank of Sri Lanka in defining the UB Finance Integrated Risk Management Committee Charter.

The Committee is mainly responsible for the following, namely

- To Identify ,assess and manage Board risk categories i;e Credit ,market, operational and strategic risks through risk indicators
- To Review the adequacy and effectiveness of all management level Committees such as the credit Committee to address specific risks and manage those risks within quantitative and qualitative risks limits as specified by the Committee.
- To Monitor and recommend appropriate actions with the officers responsible for failure to identify specific risks and initiate corrective action as necessary.
- To recommend actions to mitigate the effect of specific risks in the case of such risks are at levels beyond the prudent level.
- To establish a compliance function to assess the finance Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations.

Activities of the Committee

- The Committee works closely with the key management personnel in fulfilling its duties in risk management.

- Credit, operational and market risks were monitored by divisional heads and reported to the operational audit manager. The risks were then reviewed and assessed monthly by the operational audit manager and summarized reports were submitted quarterly to the Committee for concurrence and/or specific direction in order to ensure that the risks are managed appropriately.

- Proceedings of meetings were tabled at subsequent meetings of the Board.

Meetings

During the year the Committee met four times on a quarterly basis.

Ananda Atukorala
Committee Chairman
Integrated Risk Management Committee

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the Finance Companies Corporate Governance Direction No. 03 of 2008 (or Finance Leasing Direction No. 04 of 2009), section 10(2)(b), the Board of Directors present 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 UB Finance Company Limited. ("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 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 is in the 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 Audit Department of the Company for suitability of design and effectiveness on an on-going basis.

The Company adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS. Processes applied to adopt the said accounting standards were strengthened during the year 2015/16 based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee.

Progressive improvements on processes to comply with new requirements of recognition measurement, classification and disclosure are being made whilst some processes as at the reporting date were not fully completed. In particular, due to time constraints, areas with respect to the processes such as related party transactions, monthly impairment computation and IT controls are being implemented as at the Reporting date. The Company is in the process of updating relevant procedure manuals pertaining to these new requirements.

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 adopted 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

Alexis Lovell, MBE
Chairman

Ransith Karunaratne
Director/ Chief Executive Officer

Chandrakumar Ramachandra
Director/Chairman-Audit Committee

INDEPENDENT AUDITOR'S REPORT

EY
Building a better working world

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF UB FINANCE COMPANY LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of UB Finance Company Limited, ("the Company"), which comprise the statement of financial position as at 31 March 2016, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, set out on pages 53 to 102.

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.

Auditor's 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 auditor's 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 31 March 2016, 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:

a) The basis of opinion, scope and limitations of the audit are as stated above.

b) 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 No. 07 of 2007.

Ernst & Young

29 June 2016
Colombo

INCOME STATEMENT

Year ended 31 March 2016

	Notes	2016 Rs.	2015 Rs.
Income	4	**1,055,148,326**	**643,448,243**
Interest Income	4.1	905,968,184	586,642,376
Interest Expenses	4.2	(528,884,607)	(378,453,120)
Net Interest Income		**377,083,577**	**208,189,256**
Fee and Commission Income		67,016,024	42,553,264
Fee and Commission Expenses		(17,913,440)	(16,122,848)
Net Fee and Commission Income		**49,102,584**	**26,430,416**
Other Operating Income (Net)	5	82,164,119	14,252,603
Total Operating Income		**508,350,280**	**248,872,275**
Impairment Losses on Loans and Receivables from Customers	6	(65,617,042)	(25,863,313)
Gains on Real Estate		2,130,133	77,948,380
Net Operating Income		**444,863,371**	**300,957,342**
Staff Costs	7	(143,209,115)	(102,221,049)
Depreciation of Property, Plant and Equipment	16.1	(17,367,706)	(11,674,369)
Amortisation of Intangible Assets	18	(1,483,040)	(1,407,703)
Other Expenses	8	(179,202,429)	(154,827,733)
Operating Profit before Value Added Tax (VAT) and NBT		**103,601,081**	**30,826,488**
Value Added Tax (VAT) and NBT on Financial Services		(26,057,422)	(9,211,916)
Profit before Taxation		**77,543,659**	**21,614,572**
Tax Expense	9	669,086	(9,420,602)
Profit for the Year		**78,212,745**	**12,193,970**
Earnings Per Share	10	0.05	0.01

The Accounting Policies and Notes on pages 58 through 102 form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 March 2016

	Notes	2016 Rs.	2015 Rs.
Profit for the Year		78,212,745	12,193,970
Other Comprehensive Income/ (Expense) to be reclassified to Income Statement			
Losses on re-measuring Available-for-Sale Financial Assets	30	(1,836,121)	(483,182)
Reclassification adjustment for Available-for-Sale Investment	30	2,983,458	-
Other Comprehensive Income not to be reclassified to Income Statement			-
Gain on revaluation of land and buildings	16.1	23,019,188	-
Deferred Tax Charge impact on above	20	(6,445,373)	
Actuarial gains and losses on Post Employment Liability	25.3	1,330,221	(827,991)
Deferred Tax Charge impact on above	20	(372,462)	-
Other Comprehensive Income/ (Expense) for the Year, net of taxes		18,678,911	(1,311,173)
Total Comprehensive Income for the Year		**96,891,656**	**10,882,797**

The Accounting Policies and Notes on pages 58 through 102 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

	Notes	2016 Rs.	2015 Rs.
Assets			
Cash in Hand and Balances with Banks	11	582,630,533	277,551,226
Sri Lanka Government Securities - Available for Sale	12	8,222,970	9,657,861
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements	13	483,160,804	187,475,762
Investment in Fixed Deposit		-	100,000,000
Loans and Receivables from Customers	14	6,479,519,889	3,729,561,796
Financial Investments – Available for Sale	15	1,729,773	22,131,004
Investments in Real Estate	17	213,390,328	224,391,548
Other non Financial Assets	19	85,615,018	46,931,886
Intangible Assets	18	10,412,332	10,782,315
Property, Plant and Equipment	16	158,875,727	112,876,928
Deferred Tax Assets	20	199,347,229	199,347,228
Total Assets		**8,222,904,603**	**4,920,707,554**
Liabilities			
Due to Banks	22	766,506,938	67,113,406
Due to other Customers	21	4,236,116,264	2,825,645,952
Other Borrowed Funds	23	2,148,565,111	1,167,507,301
Current Tax Liabilities		1,234,979	4,178,809
Other Financial Liabilities	24.1	126,771,565	60,656,915
Other Non Financial Liabilities	24.2	205,921,805	155,300,455
Post Employment Liability	25	12,836,230	12,244,660
Total Liabilities		**7,497,952,892**	**4,292,647,498**
Equity			
Stated Capital	26	2,851,987,469	2,851,987,469
Statutory Reserve Fund	27	45,073,328	41,162,691
Investment Fund Reserve	28	-	-
Available-for-Sale-Reserve	30	(427,194)	(1,574,531)
Revaluation Reserves		16,573,815	-
Accumulated Loss	29	(2,188,255,707)	(2,263,515,573)
Total Shareholders' Equity		**724,951,711**	**628,060,056**
Total Equity and Liabilities		**8,222,904,603**	**4,920,707,554**

The Accounting Policies and Notes on pages 58 through 102 form an integral part of these financial statements.

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Asanka Udugama
Senior Manager - Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board;

Alexis Indrajit Lovell, MBE
Chairman

Ransith Karunaratne
Director/ Chief Executive Officer

29 June 2016
Colombo

STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2016

	Stated Capital Rs.	Statutory Reserve Fund Rs.	Investment Fund Reserve Rs.	Available-for-Sale Reserve Rs.	Revaluation Reserves Rs.	Accumulated Loss Rs.	Total Rs.
	Note 26	Note 27.1	Note 28.2	Note 30		Note 29	
Balance as at 01 April 2014	**2,851,987,469**	**40,552,993**	**9,018,950**	**(1,091,349)**	-	**(2,283,290,802)**	**617,177,261**
Other Comprehensive Income	-	-	-	(483,182)	-	(827,991)	(1,311,173)
Transfers during the year	-	-	(9,018,950)	-	-	9,018,950	-
Profit for the year	-	-	-	-	-	12,193,970	12,193,970
Transfer to the Statutory Reserve	-	609,698	-	-	-	(609,698)	-
Balance as at 31 March 2015	**2,851,987,469**	**41,162,691**	-	**(1,574,531)**	-	**(2,263,515,573)**	**628,060,056**
Balance as at 01 April 2015	**2,851,987,469**	**41,162,691**	-	**(1,574,531)**	-	**(2,263,515,573)**	**628,060,056**
Other Comprehensive Income	-	-	-	1,147,337	16,573,815	957,759	18,678,911
Profit for the year	-	-	-	-	-	78,212,745	78,212,745
Transfer to the Statutory Reserve	-	3,910,637	-	-	-	(3,910,637)	-
Balance as at 31 March 2016	**2,851,987,469**	**45,073,328**	-	**(427,194)**	**16,573,815**	**(2,188,255,707)**	**724,951,711**

The Accounting Policies and Notes on pages 58 through 102 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 March 2016

	Notes	2016 Rs.	2015 Rs.
Cash Flow from Operating Activities			
Interest Received	4.1	905,968,184	584,977,513
Fees and Commission Receipts		67,016,024	42,553,264
Interest Paid	4.2	(528,884,607)	(378,453,120)
Fees and Commission Paid		(17,913,440)	(16,122,848)
Payments on other Operating Activities		(134,918,915)	(246,755,150)
Operating Profit /(Loss)before changes in Operating Assets and Liabilities		**291,267,246**	**(13,800,340)**
Increase / (Decrease) in Operating Assets:			
Funds Advanced to Customers		(2,815,575,135)	(1,512,839,350)
Others		(38,683,131)	9,231,342
Increase in Operating Liabilities:			
Due to Banks and other customers	21	1,410,470,312	1,451,086,084
Net Cash used in Operating Activities before Income Tax		(1,152,520,708)	(66,322,264)
Retiring Gratuity paid	25.1	(287,260)	(1,658,721)
Income Tax Paid		(8,697,030)	(35,481,534)
Net Cash used in Operating Activities		**(1,161,504,998)**	**(103,462,520)**
Cash Flow from Investing Activities			
Dividends Received	5	4,860	4,420
Purchase of Property, Plant and Equipment	16	(46,197,742)	(27,804,492)
Purchase of Intangible Assets	18	(1,113,057)	-
Proceeds from Sale of Property, Plant and Equipment		7,914,416	276,786
Investments in Quoted Equity Securities		-	(780,854)
Investments in Unit Trusts	15.3	21,209,526	(20,000,000)
Investments in Government Securities		-	(7,820,190)
Net Cash used in Investing Activities		**(18,181,997)**	**(56,124,330)**
Cash Flow from Financing Activities			
Increase in Borrowings	23	981,057,810	481,518,172
Net Cash Generated from Financing Activities		**981,057,810**	**481,518,172**
Net (Decrease)/Increase in Cash and Cash Equivalents		(198,629,184)	321,931,322
Cash and Cash Equivalents at Beginning of the Year		497,913,582	175,982,259
Cash and Cash Equivalents at End of the Year		**299,284,398**	**497,913,582**
Reconciliation of Cash and Cash Equivalents			
Cash in Hand	11	580,750	525,750
Balances with Banks (Net of Overdraft)	11	(184,457,156)	209,912,070
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements	13	483,160,804	187,475,762
Investment in Fixed Deposits		-	100,000,000
		299,284,398	**497,913,582**

The Accounting Policies and Notes on pages 58 through 102 form an integral part of these financial statements.

1. REPORTING ENTITY

1.1 General

UB Finance Company Limited is a Private Limited Company, incorporated and domiciled in Sri Lanka. The Company was originally incorporated as The Finance & Guarantee Company Limited on 12th July 1961 under the Companies Ordinance No.51 of 1938 and was re-registered as required under the provision of the Companies Act No.7 of 2007 on 26th December 2007. The Company being a Finance Company is also registered with the Central Bank of Sri Lanka under the Finance Companies' Act No.78 of 1988 and Finance Leasing Act No.56 of 2000 of Sri Lanka.

Union Bank of Colombo PLC (Parent company) together with its US based strategic investment partner ShoreCap II acquired The Finance & Guarantee Co. Ltd. on 1st November 2011. The Company was restructured, re-branded & launched as UB Finance Co. Ltd. on 25th April 2012. The Company's Registered Office / Head Office are currently located at No.10, Daisy Villa Avenue Colombo 04.

1.2 Parent Entity and the Ultimate Controlling Parties

The Company's immediate parent is Union Bank of Colombo PLC and ultimate controlling party is TPG Asia GenPar VI, registered in the Cayman Island.

1.3 Principal Activities and Nature of Operations

As a Finance Company registered with the Monetary Board of the Central Bank of Sri Lanka, the principal business activities of the Company include investment activities such as accepting fixed deposits and savings accounts, finance activities such as providing lease, hire purchase and loan facilities and working capital activities such as factoring. The Company also deals in real estate and other investment and credit activities. Being the first finance company to be backed by a commercial bank in the private sector, UB Finance Company Limited is uniquely positioned to offer its customers "The versatility of a finance company backed by the strength of a bank".

1.4 Director's Responsibility Statement

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of UB Finance Company Limited as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards (LKAS/SLFRS).

Financial Statements include the following;

- Income Statement providing the information on the financial performance of the Company for the year under review.
- Statement of other comprehensive income showing the income and expenses that are not recognized in Income statement of the company for the year under review.
- Statement of Financial position providing the information on the financial position of the Company as at the reporting date
- Statement of Changes in Equity showing all changes in shareholders' funds during the year under review of the Company.
- Cash Flows Statement providing the information to the users, on the ability of the company to generate cash and cash equivalents and the need for utilization of those cash flows
- Notes to the Financial Statements comprising significant Accounting Policies

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Income Statement, Statement of Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows together with Accounting Policies and notes (Financial Statements), as at 31st March 2016 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (hereinafter referred as LKASs and SLFRSs) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007 and the presentation of the financial statements is also in compliance with the requirements of the Finance Business Act No 42 of 2011.

2.2 Approval of Financial Statements by Directors

The Financial Statements of UB Finance Company Ltd for the year ended 31st March 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 29th June 2016.

2.3 Basis of Measurement

The financial statements of the company have been prepared on a historical cost basis, except for land and building, available-for-sale financial investments that have been measured at fair value and liabilities for defined benefit obligations is recognised as the present value of the defined benefit obligation.

2.4 Functional and presentation currency

The financial statements presented in Sri Lankan rupees have been prepared on a historical cost basis except otherwise stated.

2.5 Presentation of Financial Statements

The company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 33.14.3.

2.6 Materiality and Aggregation

In compliance with LKAS 01 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

Financial Assets and Financial Liabilities are offset and the net amount is reported in the statement of financial position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard and as specifically disclosed in the accounting policies.

2.7 Comparative Information

The Financial Statements of the Company provide comparative information in respect of the previous period. In addition, the Company presents an additional Statement of Financial Position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy and previous year's figures and phrases have been re-arranged whenever necessary to confirm to the current year's presentation.

The Company has changed the measurement policy of land and building to revaluation model with effect from 31 December 2015 and accounting policies adopted by the company are consistent with those used in previous financial year except land and building measurement policy.

2.8 Significant accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards (LKASs and SLFRSs) requires management to make judgements, estimates and assumptions that 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. Revision to the accounting estimates are recognised in the period in which the estimate is revised on and in any future periods affected.

The most significant areas of estimation, uncertainity and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows,

2.8.1 Going Concern

The Company's 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, 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 continue to be prepared on the going concern basis.

2.8.2 Fair Value of Financial Instruments that are not quoted in an active market

Fair values of financial assets and financial liabilities recorded in the statement of financial position are derived from observable market data where possible, but if this is not available, judgment is applied to establish fair values.

2.8.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement 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 which are based on a number of factors and actual results may differ, resulting in future changes to the assumptions.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in comparing of assets with similar risk characteristics, to determine whether provision should be made due to 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 levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual Companies). The impairment loss on loans and advances is disclosed in more detail in Note 06 and Note 14.

2.8.4 Impairment of Available for Sale Investments

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

The Company also records impairment charges on available for sale equity investments 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 judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.8.5 Taxation

The Company is subject to income taxes and other taxes including VAT on financial services. Significant judgments were required to determine the total provision for current, deferred and other taxes in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Company recognized assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were the determination is made. The taxation is disclosed in more detail in Note 09.

2.8.6 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. The deferred taxation is disclosed in more detail in Note 20.

2.8.7 Defined Benefit Plan

The cost of the defined benefit plan and the present value of its obligations are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future gratuity increases. Due to the long–term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Refer Note 25 for more detail on Defined Benefit Plan.

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.

2.8.8 Useful lives of Property, Plant and Equipment and Intangibles

The Company reviews the assets' residual values, useful lives and methods of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.8.9 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. Refer Note 31 for more details on Commitments and Contingencies.

2.8.10 Revaluation of Property Plant and Equipment

The company carries its land and buildings at fair value, with changes in fair value being recognized in OCI.The Company engaged an individual valuation specialist to assess fair value as at 31st March 2016 for revalued land and building. Land and buildings are valued by reference to market based evidence, using comparable price adjusted for specific market factors such as nature, location and condition of the property.

The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 16.4

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial instruments – Initial Recognition, Classification and Subsequent Measurement

3.1.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.1.2 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 measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

3.1.3 ' Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. 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 income statement when the inputs become observable, or when the instrument is derecognised.

3.1.4 Classification and Subsequent Measurement of Financial Assets

At the inception a financial asset is classified into one of the following.

I. Financial assets at fair value through profit or loss
   (a) Financial assets held for trading
   (b) Financial assets designated at fair value through profit or loss
II. Held to maturity financial assets
III. Loans and receivables
IV. Financial assets available-for-sale

I. Financial assets at Fair Value Through Profit or Loss (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

(a) Financial asset 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 holds as a part of a portfolio that is managed together for short-term profit or position taking. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement).

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities and equity securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

(b) Financial assets designated at Fair Value through Profit or Loss (FVTPL)

Financial assets classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an Instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a Company's financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities 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 earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

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

II. Held to Maturity (HTM) 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. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. 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 and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement.

If the Company were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances permitted under Sri Lanka Accounting Standard- LKAS 39), 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.

III. Loans and Receivables

Loans and receivables include 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 for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate, 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 and similar income' in the income statement. The losses arising from impairment are recognised in the income statement in 'Impairment Losses on Loans and Receivables'. The Company may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held for trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Company, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (for example, due to a counterparty credit event).

IV. Financial investments Available For Sale (AFS)

Available for sale financial investments include equity 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. The Company has not designated any loans or receivables as available for sale.

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/ expense' in the 'available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in Equity is recognised in the Income Statement under 'other operating income'. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding 'available for sale financial investments' is reported as 'interest income' using the effective interest rate (EIR). Dividend earned whilst holding 'available for sale financial investments' are recognised in the Income Statement as 'other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss in 'Impairment losses on financial investments' and removed from the 'available for sale reserve'.

3.1.5 Classification and Subsequent Measurement of Financial Liabilities

At the inception the Company determines the classification of its financial liabilities. Accordingly financial liabilities are classified as:

I. Financial liabilities at fair value through profit or loss
- (a) Financial liabilities held for trading
- (b) Financial liabilities designated at fair value through profit or loss

II. Financial liabilities at amortised cost.

I. 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 fair value through profit or loss. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes are recognised in profit or loss.

(a) Financial Liabilities held for Trading

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. This category includes derivatives financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement).

(b) Financial Liabilities Designated at Fair Value through Profit or Loss.

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

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the liabilities
- The liabilities are part of a group of financial liabilities, financial assets or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The liability contains one or more embedded derivatives that significantly modify the cash flows that would otherwise have been required under the contract.

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

II. 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 financial liabilities at amortised cost under 'due to banks', 'due to other customers', 'other borrowed funds' and 'other financial liabilities' 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 another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity or settling the obligation by delivering variable number of entity's own equity instruments.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised.

3.1.6 Reclassification of Financial Instruments

The Company does not reclassify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Also the Company does not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss. The Company reclassifies non derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement).

In certain circumstances the Company is also permitted to reclassify financial assets out of the 'available for sale into the 'loans and receivables', 'held for trading' or 'held- to-maturity' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset 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 investment using the effective interest rate (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. If the asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled Statement of Profit or Loss.

The Company may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. 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.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.
The Company has not reclassified any financial asset during the year.

3.2 Derecognition of Financial Assets and Financial Liabilities

(i) Derecognition of Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- The Company has transferred substantially all the risks and rewards of the asset.
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of 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 a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(ii) Derecognition of Financial Liabilities

A financial liability is derecognised when the obligation under the liability is 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.

(iii) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Cash collateral on securities lent and repurchase agreements', reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re pledge the securities, the Company reclassifies those securities in its statement of financial position to 'Financial assets held for trading pledged as collateral' or to 'Financial investments available for sale pledged as collateral', as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Cash collateral on securities borrowed and reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held for trading' and measured at fair value with any gains or losses included in 'Net trading income'.

3.3 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKASs / SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.4 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

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 using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's 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 de recognition of the instrument. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 32.

3.5 Impairment of Financial Assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Impairment of Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from companies, loans and advances to 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. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

(a) Individually Assessed Financial Assets

The criteria used to determine whether there is objective evidence of impairment include and not limited to:

- Known cash flow difficulties experienced by the borrower;
- Past due contractual payments of either principal or interest;
- Breach of loan covenants or conditions;
- The probability that the borrower will enter bankruptcy or other financial reorganisation; and
- a significant downgrading in credit rating by an external credit rating agency.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets 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 the loss is recognised in the income statement. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

When impairment losses are determined for those financial assets where objective evidence of impairment exists, the following factors are considered:

- Company's aggregate exposure to the customer;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;

(b) Collectively Assessed Financial Assets

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed financial assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the reporting date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual financial assets within the group, those financial assets are removed from the group and assessed on an individual basis for impairment.
The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of financial assets

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of financial assets. Losses in these groups of financial assets are recorded on an individual basis when individual financial assets are written off, at which point they are removed from the group.

The Company uses the Net Flow Rate method to calculate the historical loss experience on collective basis. Under this methodology the movement in the outstanding balance of customers into bad categories over the periods are used to estimate the amount of financial assets that will eventually be written off as a result of the events occurring before the reporting date which the Company is not able to identify on an individual loan basis, and that can be reliably estimated.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. These additional macro and portfolio risk factors may include:

- Recent loan portfolio growth and product mix,
- Unemployment rates,
- Gross Domestic Production (GDP) growth,
- Inflation,
- Exchange rates,
- Interest rates
- Changes in Government laws and regulations

(c) Reversal of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the financial asset impairment allowance account accordingly. The write-back is recognised in the Statement of Profit or Loss.

(d) Write-off of Financial Assets carried at Amortised Cost

Financial assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

(e) Impairment of Rescheduled Loans and Advances

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR.

(f) Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

(g) Collateral Repossessed

The Company's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

(ii) Impairment of Available For Sale Financial Investments

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 the income statement. Future interest income is based on the reduced carrying amount 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 is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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. The Company treats 'significant' 'generally as 20% and 'prolonged' generally as greater than six months. 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.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

The Company writes-off certain Available for Sale financial investments when they are determined to be uncollectible.

3.6 Leasing

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 fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(a) Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in Note 14, 'loans and receivables from customers', as appropriate. The finance income receivable is recognised in 'net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'property, plant and equipment' and the corresponding liability to the lessor is included in 'other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'interest expenses' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

(b) Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'other operating expenses' and 'other operating income', respectively.

3.7 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar Income and Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities.

Once the recorded value of a financial asset or a Company of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee Income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(b) Fee Income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend Income

Dividend income is recognized when the Company's right to receive the payment is established.

3.8 Cash in Hand and Balances with Banks

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with Central Bank of Sri Lanka and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

3.9 Real Estate Property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as real estate property and is measured at the lower of cost and net realisable value.

Cost includes:

- Freehold rights for land
- Amounts paid to contractors for developments
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs,

Non refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid. Net realizable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of real estate property recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

3.10 Property, Plant and Equipment

Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses for plant and equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

Cost Model

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

Revaluation Model

The Company applies the Revaluation model for the entire class of Land & Buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Building of the Company is revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

On revaluation of an asset, any increase in the carrying amount is recognized in Statement of Other Comprehensive Income and presented in Revaluation Reserve in equity or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or charged in Other Comprehensive Income and presented in Revaluation Reserve in equity only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

Derecognition

Items of property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or losses rising on de-recognition of the asset is included in the Income Statement the year the asset is derecognised.

Subsequent Costs

The cost of replacing a part of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognized in income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The depreciation charges are determined separately for each significant part of an item of Property, Plant and Equipment and commence to depreciate when it is available for use. 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 de-recognised.

The estimated useful lives of the assets by equal annual instalments are as follows.

Building	2.5%
Leasehold Improvements	10%
Computer and Equipment	25%
Furniture and Fittings	7.5%
Motor Vehicles	15%
Office Equipment (Included under Furniture and Fittings)	15%

The asset's residual value, useful life and method of depreciation are reviewed at each statement of financial position date and adjusted prospectively, as changes in accounting estimates.

3.11 Intangible Assets

Software

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software 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.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Estimated Useful Life of Intangible Assets

Intangible Asset	Amortisation Period
Computer Software	Over 10 years from the date of Available to use

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.12 Impairment of non–Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. Impairment losses relating to goodwill are not reversed in future periods.

3.13 Employee Benefits

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity has a constructive obligation to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standards – LKAS 19 (Employee Benefits).

The contribution payable to defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Staff Cost' as and when they become due. Unpaid contributions are recorded as a liability.

(I) Employees' Provident Fund

The Company and the employees contribute 12% and 8% respectively on the salary of each employee to the approved private provident fund.

(II) Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan as defined in the Sri Lanka Accounting Standards – LKAS 19 (Employee Benefits).

(I) Post-Employment Liability

The cost of retirement gratuities are determined by a qualified actuary using projected unit credit method. This item is stated under other liabilities in the Statement of Financial Liabilities.

Principal Actuarial Assumptions

The principal assumptions used in the valuation were as follows :

Parameter	2016	2015
Discount Rate	12%	09%
Rate of salary increment	09%	08 %

The demographic assumptions underlying the valuation are retirement age 55, early withdrawals from service, and retirement on medical grounds, death before and after retirement, etc.

An actuarial valuation is carried out at every year end to ascertain the full liability under the fund.

Recognition of Actuarial Gain and Losses

The Company recognises the total actuarial gains and losses that arises in calculating the company obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Funding Arrangement

The gratuity liability is not externally funded. All subsidiary companies carry out actuarial valuations to ascertain their respective gratuity liabilities.

Short - Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.14 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

3.15 Taxes

As per the Sri Lanka Accounting Standard – LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2016

Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in 'Equity' or 'Other Comprehensive Income' (OCI) in which case it is recognised in Equity or in OCI.

(i) Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Accordingly provision for the taxation is based on the profit for the year adjusted for taxation purpose in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and the amendments thereto at the rates specified in Note 9 to the Financial Statements.

(ii) Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognised in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(iii) Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

(iv) Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006 and subsequent amendments thereto. ESC is payable only on exempt turnover of the Company at 0.25% and is deductible from income tax payable. ESC is not payable on turnover on which income tax is payable.

(v) Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act, No 9 of 2009 and subsequent amendments thereto with effect from 01st January 2014.NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on Financial Services.

3.16 Other Accounting Policies

3.16.1 Earnings per Share (EPS)

The Company presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Details of earnings per share are given in Note 10.

3.16.2 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 chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Bank has identified six operating segments based on products and services, as follows:

- Lease
- Hire Purchase
- Factoring
- Special Purpose Loans
- Housing Loans
- Others

Management monitors the operating results of its business units 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 overall basis and are not allocated to operating segments.

Details of segment reporting are given in Note 37.

3.16.3 Cash Flow Statement

The cash flow statement has been prepared by using 'The Direct Method' in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognised. 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, balances with banks and liquid investments.

3.16.4 Regulatory Provisions

(a) Investment Fund Account (IFA)

As proposed in the budget proposals of 2011 every person or partnership who is in the business of banking or financial services is required to establish and operate an Investment Fund Account.

As and when taxes are paid after 1st January 2011, Registered Finance Companies are required to transfer the following funds to the Investment Fund Account and build a permanent fund in the Company.

- 8% of the profits calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT

- 5% of the profit before tax calculated for the payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payments of tax.

Registered Finance Companies are required to utilise the funds in the Investment Fund Account in the following manner.

a) Invest in long term government securities and/or bonds with maturities not less than seven years
b) Lend on maturities not less than five years at interest rates not exceeding 5 year treasury bond rates plus 2%
c) Lend only for the following purposes:

i. Long term loans for cultivation of plantation crops/ agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries
ii. Factory/ mills modernisation/ establishment/ expansion
iii. Small and medium enterprises loans up to Rs.30 Mn or loans over Rs. 10 Mn to enterprises with annual turnover less than Rs.300 Mn and employees less than 400
iv. Information technology related activities and business process outsourcing
v. Infrastructure development
vi. Education – vocational training and tertiary education
vii. Restructuring of loans extended for the above purposes.

The operation of the Investment Fund Account was ceased with effect from 01 October 2014. Accordingly the Company transferred the balance remaining in the IFA as at 30 September 2014 to retained earnings.

(b) Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Company's Act Direction No 2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments there to all Registered Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32E of the Monetary Law Act with effect from 1 October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No 1 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

a) deposit liabilities to member institutions
b) deposit liabilities to Government of Sri Lanka
c) deposit liabilities to Directors, Key Management Personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks
d) deposit liabilities held as collateral against any accommodation granted
e) deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2016

Registered Finance Companies are required to pay a premium of 0.10% on eligible deposit liabilities if the Company maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

(c) Crop Insurance Levy

In terms Section 15 of the Finance Act No 12 of 2013 all institutions under the purview of Banking Act No 30 of 1988, Finance Companies Act No 78 of 1988 and Regulation of Insurance Industry Act No 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund Board effective from 01 April 2013.

3.17 Standards issued but not yet effective as at 31 March 2015

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future Financial Statements. None of those have been early adopted by the Company.

SLFRS 9-Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 14 – Regulatory Deferral Accounts

SLFRS 14 is an interim standard which provides relief for first time -adopters of SLFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts. SLFRS 14 is effective for annual periods beginning on or after 1 January 2016.

SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Management believes that the SLFRS 14 would not be applicable for the Company, as it is an existing SLFRS preparer/does not involve in rate regulatory activities. Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date

The following amendments and improvements are not expected to have a significant impact on the Company's Financial Statements.

• Accounting for Acquisition of Interest in Joint Operations (Amendments to SLFRS 11)

• Clarification of Acceptable Method of Depreciation and Amortization (Amendments to SLFRS 38)

• Equity Method in Separate Financial Statements (Amendments to SLFRS 27)

• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28)

• Annual Improvements to SLFRSs 2012-2014 Cycle-various standards.

• Investment Entities: Applying the Consolidation Exception Venture (Amendments to SLFRS 10, SLFRS 12 and LKAS 28)

• Disclosure Initiative (Amendments to LKAS 1)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2016

		NOTE	2016 Rs.	2015 Rs.
4	**INCOME**			
	Interest Income	4.1	905,968,184	586,642,376
	Fee and Commission Income		67,016,024	42,553,264
	Other Operarting Income	5	82,164,119	14,252,603
			1,055,148,326	**643,448,243**

		2016 Rs.	2015 Rs.
4.1	**Interest Income**		
	Sri Lanka Government Securities	18,740,024	12,535,223
	Balances with Banks	8,311,037	29,322,689
	Loans and receivables to other customers	878,917,123	544,784,464
		905,968,184	**586,642,376**

Notional Tax Credited on Secondary Market Transactions

Inland Revenue Act no 10 of 2006 , provided that a company which derives interest income from the secondary market transactions on Government Securities (on or after 1 April 2002) would 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, the net interest income earned from the secondary market transactions in Goverment Securities for the year 1 April 2015 to 31 March 2016 , has been grossed up in the financial statements with the resulting notional tax credit amounting to Rs. 1.8 Mn.

		2016 Rs.	2015 Rs.
4.2	**Interest Expense**		
	Due to banks	160,776,997	92,892,275
	Due to other customers	368,107,610	285,560,845
		528,884,607	**378,453,120**

		2016 Rs.	2015 Rs.
5	**OTHER OPERATING INCOME**		
	Dividend Income	4,860	4,420
	Gain on Sale of Property, Plant and Equipment	2,063,991	261,984
	Operating Profit on Real Estate	12,582,221	10,982,787
	Write back from Termination of Annuity Fund	40,000,000	-
	Others	27,513,047	3,003,411
		82,164,119	**14,252,603**

		2016 Rs.	2015 Rs.
6	**IMPAIRMENT LOSSES ON LOANS AND RECEIVABLE FROM CUSTOMERS**		
	Loans and Receivables	65,617,042	22,807,773
	Lease / Hire Purchase	-	3,055,540
		65,617,042	**25,863,313**

7. STAFF COSTS

	2016 Rs.	2015 Rs.
Salaries	102,413,619	69,588,096
Contributions to defined contribution plans	14,019,161	10,446,223
Contributions to defined to benifit plans	2,209,051	1,759,313
Rewards and incentives to employees	12,513,454	11,857,871
Others	12,053,830	8,569,546
	143,209,115	**102,221,049**

Provision for the retirement gratuities have been made based on the actuarial valuation carried out as at 31 March 2016. Please refer note 25 for detailed disclosure and assumptions on the Post Employment Liability.

8. OTHER EXPENSES

	2016 Rs.	2015 Rs. (Restated)
Directors' emoluments	6,904,762	6,904,761
Auditors' remuneration	1,750,000	2,912,000
Professional and Legal expenses	10,505,118	18,977,493
Advertising and Marketing expenses	28,137,852	24,432,174
Office administration and establishment expenses (Note 8.1)	120,302,515	95,968,521
Others	11,602,182	5,632,784
	179,202,429	**154,827,733**

8.1 RESTATEMENT OF FINANCIAL STATEMENTS

Prior Year Reclassification as at 31 March 2015

The comparatives of the financial statements for the year ended 31 March 2015 has been reclassified due to the office administration and establishment expenses comprised the NBT expense on financial services. Company reclassified the prior year other expenses line item and disclosed under VAT and NBT on Financial Services line.

The following table reflect the affected line items in the previous year financial statement for the year ended 31 March 2015.

	Year Ended 3/31/2015		
	As previously reported	**Adjustment**	**Restated**
Net Operating Income	300,957,342	-	300,957,342
Staff Costs	(102,221,049)	-	(102,221,049)
Depreciation of Property, Plant and Equipment	(11,674,369)	-	(11,674,369)
Amortisation of Intangible Assets	(1,407,703)	-	(1,407,703)
Other Expenses	(156,244,274)	1,416,541	(154,827,733)
Operating Profit before Value Added Tax (VAT) and NBT on financial services	**29,409,947**	**1,416,541**	**30,826,488**
Value Added Tax (VAT) and NBT on Financial Services	(7,795,375)	(1,416,541)	(9,211,916)
Profit Before Taxation	**21,614,572**	-	21,614,572
Tax Expense	(9,420,602)	-	(9,420,602)
Profit for the Year	**12,193,970**	-	**12,193,970**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2016

9. TAXATION

The components of income tax expense for the years ended 31 March 2016 & 2015 are;

	2016 Rs.	2015 Rs.
Current Income Tax (Note 9.1)	30,062,220	9,420,602
Over Provision from previous year taxes	(23,913,471)	-
Deferred tax charge/ (Reversal) (Note 20)	(6,817,835)	-
	(669,086)	**9,420,602**

During the period the company received a tax refund for claims made for a writeoff during the 2013/14 financial year.

9.1 Reconciliation of Current Income Tax Expense

	2016 Rs.	2015 Rs.
Profit before Tax	77,543,659	21,614,572
Add: Disallowable Expenses	125,475,898	56,804,647
Less: Tax Deductible Expenses	(37,842,521)	(26,657,669)
Statutory Income		
:Tax Losess claimed	(57,811,963)	(18,116,542)
Taxable Income	107,365,073	33,645,007
Tax expense for the period (@28%)	**30,062,220**	**9,420,602**
Effective Tax Rate	-0.86%	43.58%
Effective Tax Rate (Excluding Deferred tax)	7.93%	43.58%

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2016

10. BASIC EARNINGS PER ORDINARY SHARE

10.1 Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

10.2 The following reflects the income and share details used in the computation of the Basic Earning per Share.

	2016 Rs.	2015 Rs.
Amounts used as the numerators:		
Profit attributable to ordinary shareholders for basic earnings per share (Rs)	78,212,745	12,193,970
Number of ordinary shares used as denominators for basic earnings per share		
Weighted average number of ordinary shares in issue	1,695,162,885	1,695,162,885
Basic Earnings per ordinary share (Rs.)	**0.05**	**0.01**

11. CASH IN HAND AND BALANCES WITH BANKS

	2016 Rs.	2015 Rs.
Cash in hand	580,750	525,750
Balances with Banks	582,049,783	277,025,476
	582,630,533	**277,551,226**

12. SRI LANKA GOVERNMENT SECURITIES

	2016 Rs.	2015 Rs.
Available-for-Sale		
Treasury bonds	8,222,970	9,657,861
	8,222,970	**9,657,861**

13. CASH COLLATERAL ON SECURITIES BORROWED AND REVERSE REPURCHASED AGREEMENTS

	2016 Rs.	2015 Rs.
Due from Banks	483,160,804	187,475,762
	483,160,804	**187,475,762**

14. LOANS AND RECEIVABLES FROM OTHER CUSTOMERS

	2016 Rs.	2015 Rs.
Gross loans and receivables (Note 14.1 & 14.2)	6,896,416,579	4,472,258,211
(Less): Individual impairment charges (Note 14.3)	(236,510,426)	(440,233,006)
Collective impairment charges (Note 14.3)	(180,386,264)	(302,463,409)
Net loans and receivables	**6,479,519,889**	**3,729,561,796**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2016

14.1. Gross Loans and Receivables to Other Customers - By Product

	2016 Rs.	2015 Rs.
Pawning	-	10,045,304
Staff loans	75,010	3,005,070
Term loans	1,405,049,609	1,001,712,826
Leasing	3,360,771,055	1,455,649,758
Hire Purchase	293,926,381	513,417,976
Housing Loans	202,004,793	208,860,542
Factoring	1,209,112,795	764,810,320
Repossessed Loans	185,290,854	191,142,943
Other Loans and Receivables	240,186,082	323,613,472
	6,896,416,579	**4,472,258,211**

14.1.1 Contractual maturities of Finance Lease Receivables

	Within one year Rs.	1 to 5 Years Rs.
Finance Lease Receivables	1,072,288,506	2,288,482,549
	1,072,288,506	**2,288,482,549**

14.2 Gross Loans and Receivables to other customers - By Industry

	2016 Rs.	2015 Rs.
Transport	3,839,988,290	2,160,210,677
Construction	1,607,054,402	1,210,573,368
Trading and Other Services	1,209,112,796	764,810,320
Other Services	240,261,091	326,618,542
Other Customers Including Pawning	-	10,045,304
	6,896,416,579	**4,472,258,211**

14.3 Movements in Individual and Collective Impairment Charges during the Year

	2016 Rs.	2015 Rs.
Individual impairment charges		
Balance as at 01 April	(440,233,006)	(485,812,552)
Charge to income statement	(50,828,976)	(41,299,034)
Impairment reversals on loan write off	254,551,556	86,878,581
Balance as at 31 March	**(236,510,426)**	**(440,233,006)**
Collective impairment charges		
Balance as at 01 April	(302,463,409)	(317,899,131)
(Charge)/Reversal to income statement	(14,788,066)	15,435,722
Impairment written off on loan	136,865,211	-
Balance as at 31 March	**(180,386,264)**	**(302,463,409)**

15 FINANCIAL INVESTMENTS - AVAILABLE FOR-SALE (EXCLUDING SRI LANKA GOVERNMENT SECURITIES)

	2016 Rs.	2015 Rs.
Equity securities		
Quoted (Note 15.1)	833,314	1,248,788
Unquoted (Note 15.2)	200,900	200,900
Investment in Unit Trusts (Note 15.3)	695,559	20,681,315
	1,729,773	**22,131,004**

15.1 Equity Securities

Quoted Investments	2016 No. of Shares	2016 Cost (Rs.)	2016 Market Value (Rs.)	2015 No. of Shares	2015 Cost (Rs.)	2015 Market Value (Rs.)
Blue Diamond Jewellery Worldwide PLC	2,081,314	3,387,424	833,314	2,081,314	3,387,424	1,248,788
		3,387,424	**833,314**		**3,387,424**	**1,248,788**

Fair value of Available-for-Sale Financial assets is derived from quoted market prices in active markets.

15.2 Unquoted Investments

	2016 No. of Shares	2016 Cost (Rs.)	2016 Director Valuations (Rs.)	2015 No. of Shares	2015 Cost (Rs.)	2015 Director Valuations (Rs.)
Credit Information Bureau	9	900	900	9	900	900
Finance House Consortium (Pvt) Ltd	20,000	200,000	200,000	20,000	200,000	200,000
		200,900	**200,900**		**200,900**	**200,900**

Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absense of most recent exit prices.

15.3 Investments In Unit Trust

	2016 No of Units	2016 Cost (Rs.)	2016 Market Value (Rs.)	2015 No of Units	2015 Cost (Rs.)	2015 Market Value (Rs.)
Eagle Growth and Income Fund (Former Pyramid Unit Trust)	8,928	75,000	311,627	8,928	75,000	308,550
Cey Bank Unit Trust Fund	11,323	100,000	383,932	11,323	100,000	325,748
Investrust Money Market Fund				1,903,529	20,000,000	20,047,017
		175,000	**695,559**		**20,175,000**	**20,681,315**

Fair value of the unit trusts are obtained from the observable market data available in the market.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2016

16. PROPERTY, PLANT AND EQUIPMENT

16.1 Property, Plant and Equipment

2016

Cost or Valuation	Land and Buildings Rs.	Leasehold Assets Rs.	Leasehold Motor Vehicles Rs.	Computer & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicle Rs.	Total Rs.
Balance as at 01 April	36,755,813	32,496,881	-	19,471,274	45,637,097	13,056,300	147,417,367
Additions/Transfers	-	17,757,247	-	6,659,380	11,520,331	10,260,784	46,197,742
Revaluation Surplus	23,019,188	-	-	-	-	-	23,019,188
Disposals	-	-	-	-	-	(7,098,376)	(7,098,376)
Balance as at 31 March	59,775,001	50,254,128	-	26,130,654	57,157,428	16,218,708	209,535,920
(Less): Accumulated depreciation							
Balance as at 01 April	5,273,992	4,613,665	-	9,231,001	11,551,419	3,870,361	34,540,439
Charge for the year	850,447	4,438,889	-	4,755,454	5,210,663	2,112,252	17,367,706
Disposals	-	-	-	-	-	(1,247,952)	(1,247,952)
Balance as at 31 March	6,124,439	9,052,554	-	13,986,455	16,762,082	4,734,661	50,660,193
Net book value as at 31 March	**53,650,562**	**41,201,574**	-	**12,144,199**	**40,395,346**	**11,484,047**	**158,875,727**

2015	Land and Buildings Rs.	Leasehold Assets Rs.	Leasehold Motor Vehicles Rs.	Computer & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicle Rs.	Total Rs.
Cost							
Balance as at 01 April	36,755,813	23,798,125	-	15,273,272	34,479,364	8,212,564	118,519,139
Additions/Transfers	-	8,698,756	-	4,198,002	11,157,733	6,250,000	30,304,492
Disposals	-	-	-	-	-	(1,406,264)	(1,406,264)
Transfer Out	-	-	-	-	-	-	-
Balance as at 31 March	36,755,813	32,496,881	-	19,471,274	45,637,097	13,056,300	147,417,367
(Less): Accumulated depreciation							
Balance as at 01 April	4,590,103	1,823,903	-	5,834,989	7,539,696	4,468,840	24,257,532
Charge for the year	683,889	2,789,762	-	3,396,012	4,011,723	792,983	11,674,369
Disposals	-	-	-	-	-	(1,391,462)	(1,391,462)
Transfer In/(Transfer Out)	-	-	-	-	-	-	-
Balance as at 31 March	5,273,992	4,613,665	-	9,231,001	11,551,419	3,870,361	34,540,439
Net book value as at 31 March	**31,481,821**	**27,883,216**	-	**10,240,273**	**34,085,678**	**9,185,939**	**112,876,928**

16.2 Net Book Values

	2016 Rs.	2015 Rs.
At Cost		
Land and Buildings	53,650,562	31,481,821
Leasehold Assets	41,201,574	27,883,216
Motor Vehicles	11,484,047	9,185,939
Computer & Equipments	12,144,199	10,240,273
Furniture & Fittings	40,395,346	34,085,678
	158,875,727	**112,876,928**

16.3 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 46,197,742 (2015 - Rs. 30,304,492/-).

16.4 Fair Valuation Process and Key Valuation Assumptions

The Company measures land and buildings at revalued amounts with gains in fair value being recognised in equity (Revaluation Reserve) and losses in the Statement of Income Statement. The Company usually engages an external independent and qualified valuer once in five year basis to determine the fair values. When significant changes in fair values are expected in between, a valuation is adopted in more regular basis, based on the judgment of the Board, appropriately advised by the valuer.

The latest revaluation has been carried out by Mr. D.Jayawardena a chartered independent valuer as at 23 November 2015. The valuation of the Land and Building has been determined using the investment approach which falls under level 3 of the fair value measurement hierarchy. The carrying value of such revalued buildings as at 23 November 2015 are approximate the fair values determined by Mr. D.Jayawardena as at 23 November 2015.

16.4 Fair Valuation Process and Key Valuation Assumptions (Contd..)

Description of valuation techniques used and key inputs to valuation of land and building:

	Valuation technique	Significant unobservable inputs	Range
Land and Building	Investment method	Estimated monthly average income	Rs.70 per sq.ft
		Estimated annual income	Rs.350,000
		Outgoing as a % of monthly income	40%
		Capitalized on return of 5.5% (in years)	18.18yp
		Addition of contingencies	10%

16.5 There were no significant temporarily idling assets as at 31 March 2016.

16.6 Company continues to use Property Plant and Equipment and Intangible assets which are fully depreciated amounting to Rs. 16,576,769 as at 31 March 2016.

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17. INVESTMENTS IN REAL ESTATE

	2016 Rs.	2015 Rs.
Land		
Cost	171,116,510	184,697,864
Provision	(1,065,763)	(3,195,896)
Net Value	170,050,747	181,501,967
Housing Projects		
Cost	5,954,549	5,954,549
Less : Provision	(3,103,915)	(3,103,915)
Net Value	2,850,634	2,850,634
Joint Venture Projects		
Cost	407,387,049	406,937,050
Less : Provision	(366,898,102)	(366,898,102)
Net Value	40,488,947	40,038,947
	213,390,328	**224,391,548**

18. INTANGIBLE ASSETS

	2016 Rs.	2015 Rs.
Cost		
Balance as at 01 April	22,184,710	24,684,710
Additions/ Transfers	1,113,057	(2,500,000)
Balance as at 31 March	23,297,767	22,184,710
(Less): Amortisation of Intangible Assets		
Balance as at 01 April	11,402,395	9,994,691
Additions/ Transfers	-	-
Amortisation for the year	1,483,040	1,407,703
Balance as at 31 March	12,885,435	11,402,395
Net book value at 31 March	**10,412,332**	**10,782,315**

19. OTHER NON FINANCIAL ASSETS

	2016 Rs.	2015 Rs.
Advances	22,592,449	15,965,677
Deposits and Prepayments	35,396,420	30,546,996
Trading Stock	22,953,004	-
Others	4,673,145	419,213
	85,615,018	**46,931,886**

20. DEFERRED TAXATION

Deferred Tax Assets, Liabilities and Income Tax relates to the followings.

	Statement of Financial Position		Income Statement		Statement of Other Comprehensive Income	
Deferred Tax Liability	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Depreciation of Property Plant and Equipment	29,483,074	12,399,898	10,637,804	6,029,249	6,445,373	-
Depreciation of Lease Assets	23,929,345	23,774,533	154,812	7,500,680	-	-
	53,412,419	36,174,430	10,792,616	13,529,929	6,445,373	-
Deferred Tax Assets						
Brought forward retained loss	(238,304,458)	(230,008,197)	(8,296,261)	(14,721,614)	-	-
Defined Benefit Plans	(3,594,144)	(3,428,505)	(538,100)	(1,289,314)	372,462	-
Impairment of Loans and Receivables from Customers	(10,861,045)	(2,084,956)	(8,776,089)	2,480,999	-	-
	(252,759,648)	(235,521,658)	(17,610,450)	(13,529,929)	372,462	-
Deferred Income Tax Charge/ (Reversal)			**(6,817,835)**		**6,817,835**	
Net Deferred Tax Liability/ (Asset)	**(199,347,229)**	**(199,347,228)**				

21. DUE TO OTHER CUSTOMERS

	2016 Rs.	2015 Rs.
At Amortised Cost (Note 21.1)	4,236,116,264	2,825,645,952
	4,236,116,264	**2,825,645,952**

21.1 Due to Other Customers - by Product

	2016 Rs.	2015 Rs.
Savings Deposits	5,486,160	4,656,691
Fixed Deposits	4,230,630,104	2,820,989,261
	4,236,116,264	**2,825,645,952**

22. DUE TO BANKS

	2016 Rs.	2015 Rs.
Bank Overdraft	766,506,938	67,113,406
	766,506,938	**67,113,406**

23. OTHER BORROWED FUNDS

	2016 Rs.	2015 Rs.
Borrowings from Financial Institutions and Banks	2,148,565,111	1,167,507,301
	2,148,565,111	**1,167,507,301**

24. OTHER FINANCIAL AND NON FINANCIAL LIABILITIES

24.1 Financial Liabilities

	2016 Rs.	2015 Rs.
Vendor Payables	112,827,645	51,521,283
Fees Payable	13,943,920	9,135,632
	126,771,565	**60,656,915**

24.2 Non Financial Liabilities

	2016 Rs.	2015 Rs.
Accrued Expenses	17,467,158	7,297,496
Sundry Creditors	155,167,785	127,039,334
Other Payables	33,286,862	20,963,625
	205,921,805	**155,300,455**

25. POST EMPLOYMENT LIABILITY

25.1 The movement of the Post Employment Liability of the Company is given below;

	2016 Rs.	2015 Rs.
Post Employment Liability as at 01 April	12,244,660	11,316,077
Amount recognised in Income Statement (Note 25.2)	2,209,051	1,759,313
Amount recognised in Other Comprehensive Income (Note 25.3)	(1,330,221)	827,991
Payments made during the year	(287,260)	(1,658,721)
Post Employment Liability as at 31 March	**12,836,230**	**12,244,660**

25.2 Amount recognised in Income Statement

	2016 Rs.	2015 Rs.
Service cost	1,720,410	1,280,371
Net interest on the net Post Employment Liability (asset)	488,641	478,942
	2,209,051	**1,759,313**

25.3 Amount recognised in Other Comprehensive Income

	2016 Rs.	2015 Rs.
Liability (gains)/ losses due to changes in assumptions	(1,371,208)	542,309
Liability experience (gains)/ losses arising during the year	40,987	285,682
	(1,330,221)	**827,991**

25. POST EMPLOYMENT LIABILITY (Contd..)

25.4 The Principle Assumptions used in determining Post Employment Liability are shown below;

	2016 Rs.	2015 Rs.
Discount Rate	12%	9%
Salary Increment Rate	9%	8%
Retirement Age	55 Years	55 Years
Mortality	Mortality Table	Mortality Table

25.5 Messers Piyal S. Goonathileke and Associates, a firm of professional actuaries has carried out an independent actuarial valuation of the defined benefit plan and accordingly compatible assumptions have been used in determining the cost of the retirement benefits.

25.6 The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment liability measurement.

Increase/(Decrease) in discount rate- %	1%	-1%		
Increase/(Decrease) in salary increment rate - %			1%	-1%
Sensitivity effect on Statement of Other Comprehensive Income	574,405	(669,504)	(673,440)	586,614
Sensitivity effect on Post Employment Liability	(574,405)	669,504	673,440	(586,614)

26. STATED CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka . The adequacy of the Company's Capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

	2016 Rs.	2015 Rs.
Issued and fully paid ordinary share capital	2,851,987,469	2,851,987,469
	2,851,987,469	**2,851,987,469**
Number of ordinary shares issued	**1,695,162,885**	**1,695,162,885**

27. STATUTORY RESERVE FUND

27.1 Five percent of the profits after tax is transferred to the Reserve Fund as required by the Section 3b (i) of the Central Bank Direction No 01 of 2003.

	2016 Rs.	2015 Rs.
Balance as at 1 April	41,162,691	40,552,993
Transfer during the year	3,910,637	609,698
Balance as at 31 March	**45,073,328**	**41,162,691**

28. INVESTMENT FUND RESERVE

28.1 Investment Fund Account is established and operated based on the Guidelines on the operations of the Investment Fund Account issued by the Central Bank of Sri Lanka on 29 April 2011 with the concurrence of the Commissioner General of Inland Revenue.

28.2 Operation of Investment Fund Reserve was ceased with effect from 01 October 2014.

	2016 Rs.	2015 Rs.
Balance as at 01 April	-	9,018,950
Transfer during the year	-	-
Transferred to Accumulated Loss	-	(9,018,950)
Balance as at 31 March	-	-

29. ACCUMULATED LOSS

	2016 Rs.	2015 Rs.
Balance as at 01 April	**(2,263,515,573)**	**(2,283,290,802)**
Profit for the year	78,212,745	12,193,970
Other Comprehensive Income for the year	957,759	(827,991)
Transfer from Investment Fund Reserve (Note 28.2)	-	9,018,950
Transfer to Statutory Reserve Fund	(3,910,637)	(609,698)
Balance as at 31 March	**(2,188,255,707)**	**(2,263,515,573)**

30. AVAILABLE FOR SALE RESERVE

	2016 Rs.	2015 Rs.
Balance as at 01 April	(1,574,531)	(1,091,349)
Fair value loss recognised during the year	(1,836,121)	(483,182)
Accumulated fair value loss transferred to income statement	2,983,458	-
Balance as at 31 March	**(427,194)**	**(1,574,531)**

31. CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS

31.1 Lease Arrangements

Operating Lease Commitments - Company as Lessee
The Company has entered in to operating leases for Company premises. There are no restrictions placed upon the lessee by entering in to these leases.
Future minimum lease payments under non cancellable operating leases as at 31 March, are as follows;

	2016 Rs.	2015 Rs.
Within one year	28,577,875	8,697,000
After one year to five years	155,412,068	49,500,444
More than five years	61,229,993	44,876,737
	245,219,936	**103,074,181**

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31.2 Litigations against the Company

Litigation is a common occurrence in the Company industry due to the nature of the business undertaken. The Company has an established legal protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Company makes adjustments to account for any adverse effect which the claims may have on its financial standing. Set out below are unresolved legal claims against the Company as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of it's outcome.

Litigations against UB Finance Company Limited

a DSP/0222/10, DMR/835/16, DMR/836/16, DTS/279/08, DSP/0266/12, DLM/107/11, DMR/1608/14, DMR/1609/14, DMR/1610/14, DMR/03020/15 and HC(Civil)/121/12.

Cases with regard to asset backed facilities granted to customers, loan facilities granted to customers, a fixed deposit, a property backed facility granted to customers and joint venture matters.

b B/4004/14 and B/4005/14
Cases with regard to a minority shareholder matter.

C HCCA/97/14. Case with regard to a property.

d HC/Civil/177/10, CHC503/MR, CHC533/MR and CHC533/MR
Cases with regard to a joint venture matter and minority shareholder matters.

e 4107/11/M. Cases with regard to a property backed facility granted to a customer.

f 2121/P. Case with regard to a property granted to a customer.

g DMR/2814/15 and HCRA/887/13. Case with regard to asset backed facility granted to a customer.

31.3 Contingent Liabilities

The Company has recognised that there could be a contingent liability in respect of certain real estate projects entered into by the previous management. This exact nature of the liability and its extent cannot be determined at this point of time due to the non availability of sufficient information.

32. FAIR VALUE OF ASSETS AND LIABILITIES

32.1 Assets and Liabilities recorded at Fair Value

The following is a description of how Fair Values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Financial Investments – Available for Sale

Available for sale financial assets, which primarily consist of quoted equities and Government debt securities are valued using valuation techniques or pricing models. These assets are valued using models that use observable data. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka and quoted equities are valued using quoted market prices in the active markets as at the reporting date.

Trading assets and other assets measured at fair value

Trading assets and other assets measured at fair value are the Government debt securities ,asset–backed securities and quoted equities. Government debt securities and asset-backed securities are valued using yield curves published by the Central Bank of Sri Lanka. For quoted equities the Company uses quoted market price in active markets as at the reporting date.

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32.2 Valuation Model

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair values are determined according to the following hierarchy:

Level 1 – quoted market price (unadjusted): financial instruments with quoted prices in active markets.
Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.
Level 3 – valuation technique with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

32.3 Valuation Framework

Cash and Cash Equivalents

Included in cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as Cash and cash equivalents. Time deposits, certificates of deposit, and money market accounts that meet the above criteria are reported at par value on our statement of financial position.

Finance Receivables (Loans, Lease Rentals Receivable and Stock out on Hire)

We measure performing finance receivables at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest).

Other Financial Assets

Since all the balances which are under other financial assets have short term maturities, it is assumed that the carrying amounts of those balances approximate their fair values.

32.4 Assets and liabilities measured at fair value - fair value hierarchy

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the value recognised in the statement of financial position in the financial statements.

	2016			
Financial Assets	**Level 1 Rs.**	**Level 2 Rs.**	**Level 3 Rs.**	**Total Rs.**
Sri Lanka government securities - Available for Sale	8,222,970	-	-	8,222,970
Financial Investments – Available for Sale				
Equity Securities	833,314	200,900	-	1,034,214
Investments in Unit Trusts	695,559	-	-	695,559
	9,751,843	**200,900**	-	**9,952,743**

The methods used to determine fair value of the financial instruments categorised under level 2 are stated in Note 15.2 .

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32.4 Assets and liabilities measured at fair value - fair value hierarchy (Contd..)

	2015			
Financial Assets	**Level 1 Rs.**	**Level 2 Rs.**	**Level 3 Rs.**	**Total Rs.**
Sri Lanka Government securities - Available for Sale	9,657,861	-	-	9,657,861
		-	-	
Financial Investments – Available for Sale				
Equity Securities	1,248,788	200,900	-	1,449,688
Investments in Unit Trusts	20,681,315	-	-	20,681,315
	31,587,964	**200,900**	-	**31,788,864**

The methods used to determine fair value of the financial instruments categorised under level 2 are stated in Note 15.2.

32.5 Fair Value of Financial Assets and Liabilities not Carried at Fair Value

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:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts which do not have a specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money – market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments by classes, that are not carried at fair value in the financial statements. This table does not include the fair values of non – financial assets and non – financial liabilities.

	2016				
	Fair Value				
Financial Assets	**Level 1 Rs.**	**Level 2 Rs.**	**Level 3 Rs.**	**Fair value Rs.**	**Carrying amount Rs.**
Cash in hand and balances with Banks	582,630,533	-	-	582,630,533	582,630,533
Loans and receivables					
Cash collateral on securities borrowed and reverse repurchased agreements	-	483,160,804	-	483,160,804	483,160,804
Loans and Receivables from Customers	-	5,616,093,767	-	5,616,093,767	6,479,519,889
	582,630,533	**6,099,254,571**	-	**6,681,885,104**	**7,545,311,226**
Financial Liabilities					
Due to Banks	766,506,938	-	-	766,506,938	766,506,938
Other Financial Liabilities at Amortised Cost					
Due to other Customers	-	4,453,179,730	-	4,453,179,730	4,236,116,264
Other Borrowed Funds	-	1,902,331,716	-	1,902,331,716	2,148,565,111
Other Financial Liabilities	-	126,771,565	-	126,771,565	126,771,565
	766,506,938	**6,482,283,011**	-	**7,248,789,949**	**7,277,959,878**

32.5 Fair value of financial assets and liabilities not carried at fair value (Contd..)

	2015				
	Fair Value				
Financial assets	**Level 1 Rs.**	**Level 2 Rs.**	**Level 3 Rs.**	**Fair value Rs.**	**Carrying amount Rs.**
Cash in hand and balances with Banks	277,551,226	-	-	277,551,226	277,551,226
Loans and receivables					
Investment in fixed deposits		100,000,000		100,000,000	100,000,000
Cash collateral on securities borrowed and reverse repurchased agreements	-	187,475,762	-	187,475,762	187,475,762
Loans and receivables from customers	-	3,697,471,772	-	3,697,471,772	3,729,561,796
	277,551,226	**3,984,947,534**	-	**4,262,498,760**	**4,294,588,786**
Financial liabilities					
Due to banks	67,113,406	-	-	67,113,406	67,113,406
Other Financial Liabilities at Amortised Cost					
Due to other customers	-	3,195,681,311	-	3,195,681,311	2,825,645,952
Other Borrowed funds	-	1,167,507,301	-	1,167,507,301	1,167,507,301
Other Financial Liabilities	-	60,656,915	-	60,656,915	60,656,915
	67,113,406	**4,423,845,527**	-	**4,490,958,933**	**4,120,923,572**

33. RISK MANAGEMENT

33.1 Introduction

Risk is inherent in the Company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non – trading risks. It is also subject to country risk and various operating risks.

The business risks such as changes in the environment, technology and industry are primarily addressed through the company's strategic planning process. Industry specific changes are also reviewed and presented on a need basis by the Management and are tabled at the Integrated Risk Management Committee (IRMC) and the Credit Committee (CC).

33.2 Risk Management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed a Board Sub Committee called "Integrated Risk Management Committee (IRMC)" which has the responsibility to monitor the overall risk process within the company.

The IRMC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. IRMC is also responsible for managing risks and monitoring risk levels and reports on monthly/ quarterly basis to the Board.

Exceptions are reported on daily, monthly or quarterly basis, where necessary, to the IRMC or its sub committees, and the relevant actions are taken to address exceptions and any areas of weakness.

Company Treasury and the Asset Liability Committee (ALCO) are responsible for managing the Company's assets and liabilities and the overall financial structure.

33.3 Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries. In addition, the Company's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors and Integrated Risk Committee. These reports include aggregate credit exposures, credit concentration, operational risk, market risk and liquidity ratios. Management assess the appropriateness of the allowance for credit losses on a monthly basis.

Risk related policies are documented and made available to all staff at all levels for a comprehensive understanding of the Company's risk appetite and the overall risk management of the Company. Workshops are held to share knowledge of potential risk events and keep the staff abreast with the latest changes. Briefings are also given to other relevant members of the Company on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

33.4 Risk mitigation

As part of its overall risk management, the company uses various instruments to manage exposures resulting from credit risks, changes in interest rates, equity risks, and exposures arising from transactions.

The Company actively uses collateral to reduce its credit risks.

33.5 Excessive risk concentration

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines, including concentration limits to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

33. RISK MANAGEMENT (Contd...)

33.6 Credit Risk

The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Company has established a credit quality review process to provide early identification of possible changes in the creditworthiness of borrowers, including regular collateral revisions. Company uses a risk rating process to rate the borrowers according to its risk profile. The credit quality review process aims to allow the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

A structured and standardized credit appraisal and approval process is in place. Credit Authority lies with the Board of Directors, Board Credit Committee, Credit Committee and members of the Management as per the assigned limits on delegated credit authority. All credit facilities are required to be reviewed by the Branch Managers and Product Managers annually. Company's systems for credit evaluation and decision making are independent from collateralization albeit collateral helps to mitigate credit risk.

Credit Operation Department reviews credit facilities before and after sanctioning of facilities. A separate Loan Review Policy approved by the Board of Directors is in place.

In the post sanctioning review of credit facilities, the Credit Committee reviews among other things, the disbursements, perfection of collaterals and repayments are in accordance with the terms of approval.

33.7 Impairment Assessment

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- Where the Company grants the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

Specific Impairment

The Company determines the provisions appropriate for each individually significant loan or advance on an individual basis by Credit Administration, Credit Department, Finance Department, including any overdue payments of interests, or infringement of the original terms of the contract. Items considered when determining provisioning amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collective Impairment

Allowances are assessed collectively for losses on loans and advances and for held to maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Company generally bases its analysis on historical experience. However, when there are significant market developments, the Company would include macroeconomic factors within its assessments.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data.

33.8 Credit Quality by Class of Financial Assets

The Company manages the credit quality of financial assets by categorising its credit exposure by class of financial asset, line of business and geographic region. It is the Company's policy to maintain accurate and consistent risk profile across the credit portfolio. The table below shows the credit quality for all financial assets exposed to credit risk, based on the Company's internal credit rating system.

33. RISK MANAGEMENT (Contd...)

As at 31 March 2016	Neither Past Due Nor Impaired Rs.	Past Due but Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
Cash in hand and balances with Banks	582,630,533	-	-	582,630,533
Sri Lanka Government Securities - Available for Sale	8,222,970	-	-	8,222,970
Investment in Fixed Deposit	-	-	-	-
Cash collateral on securities borrowed and reverse repurchased agreements	483,160,804	-	-	483,160,804
Loans and receivables from customers	2,991,132,407	3,283,893,714	204,493,768	6,479,519,889
Financial investments – Available-for-Sale	1,729,773	-	-	1,729,773
	4,066,876,487	**3,283,893,714**	**204,493,768**	**7,555,263,969**

Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

	Past Due But Not Impaired *				
	Less than 3 Months	3 to 6 Months	6 to 12 Months	More than 12 Months	Total
Loans and receivables from Customers	2,356,754,081	372,244,904	97,708,311	457,186,418	3,283,893,714

* Past due but not impaired Loans and Receivable include the Loans and Receivables that are collectively impaired.

As at 31 March 2015	Neither Past Due Nor Impaired Rs.	Past Due but Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
Cash in hand and balances with Banks	277,551,226	-	-	277,551,226
Sri Lanka Government Securities - Available for Sale	9,657,861	-	-	9,657,861
Investment in Fixed Deposit	100,000,000	-	-	100,000,000
Cash collateral on securities borrowed and reverse repurchased agreements	187,475,762	-	-	187,475,762
Loans and receivables from customers	1,538,638,972	1,764,097,573	426,825,254	3,729,561,796
Financial investments – Available-for-Sale	22,131,004	-	-	22,131,004
	2,135,454,824	**1,764,097,573**	**426,825,254**	**4,326,377,651**

Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets.

	Past Due But Not Impaired				
	Less than 3 Months	3 to 6 Months	6 to 12 Months	More than 12 Months	Total
Loans and receivables from Customers	1,199,450,689	346,939,161	68,893,759	148,813,964	1,764,097,573

33. RISK MANAGEMENT (Contd...)

33.9 Analysis of Credit Risk Exposure

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, other non-financial assets .

The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka. To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Non - financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral and the net exposure to credit risk.

As at 31 March	2016	
	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Cash in Hand and Balances with Banks	582,630,533	-
Sri Lanka Government Securities	8,222,970	-
Cash collateral on securities borrowed and reverse repurchased agreements	483,160,804	-
Loans and Receivables from Customers	6,896,416,579	2,518,066,632
Financial Investments - Available for Sale	1,729,773	-
Other Financial Assets **	-	-
Total Financial Assets	**7,972,160,659**	**2,518,066,632**

The Company holds certain assets as collateral which it is permitted to sell or re-pledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements which are fair valued based on the valuations obtained.

33.10 Credit – related commitment risks

Such commitment risks are mitigated by regular review of unfunded limits and exposures similar to review of funded limits and exposures.

33.11 Collateral and other credit enhancements:

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities.
- For commercial lending, charges over real estate properties, inventory and trade receivables etc.
- For retail lending, mortgages over residential properties etc.
- Management monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement.
- It is the Company's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Company does not occupy repossessed properties for business use.
- The Company also makes use of netting agreements with borrowers with whom a significant volume of transactions are undertaken.
  Although on the Statement of Financial position netting arrangements may significantly reduce credit risk, it should be noted that.
  - Credit risk is eliminated only to the extent that amounts due to the same borrower will be settled after the assets are realized.
  - The documentation are legally enforceable.

33. RISK MANAGEMENT (Contd...)

33.12 Analysis of risk concentration

The following table shows the risk concentration by industry for the components of the statement of financial position.

As at 31 March 2016	Construction	Financial Services	Transport	Retail	Government	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash in hand and balances with Banks	-	582,630,533	-	-	-	582,630,533
Sri Lanka Government Securities - Available for Sale	-	8,222,970	-	-	-	8,222,970
Cash collateral on securities borrowed and reverse repurchased agreements	-	483,160,804	-	-	-	483,160,804
Investment in Fixed Deposits	-	-	-	-	-	-
Loans and receivables from Customers	1,607,054,400	-	3,839,988,291	1,449,373,888	-	6,896,416,579
Financial Investments – Available for Sale	-	1,729,773	-	-	-	1,729,773
Total Financial Assets	**1,607,054,400**	**1,075,744,080**	**3,839,988,291**	**1,449,373,888**	**-**	**7,972,160,659**
As at 31 March 2015						
Cash in hand and balances with Banks		277,551,226				277,551,226
Sri Lanka Government Securities - Available for Sale	-	9,657,861	-	-	-	9,657,861
Cash collateral on securities borrowed and reverse repurchased agreements	-	187,475,762	-	-	-	187,475,762
Investment in Fixed Deposits	-	100,000,000	-	-	-	100,000,000
Loans and receivables from Customers	1,210,573,368	-	2,160,210,678	1,101,474,165	-	4,472,258,211
Financial Investments – Available for Sale	-	22,131,004	-	-	-	22,131,004
Total Financial Assets	**1,210,573,368**	**596,815,853**	**2,160,210,678**	**1,101,474,165**	**-**	**5,069,074,064**

33. RISK MANAGEMENT (Contd...)

33.13 Liquidity risk and funding management

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity consistently through a Management Committee.
The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has lines of credit that it can access to meet liquidity needs. In addition, the Company maintains Treasury bill investments with the Central Bank of Sri Lanka equal to 11.6% of customer deposits. Net liquid assets consist of cash, short – term company deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month. The ratios during the year were, as follows:

Liquid Asset Ratios	2016 Rs.	2015 Rs.
Year End	17%	14%
Maximum	17%	34%
Minimum	11%	12%
Average	14%	22%

Advances to Deposit Ratios

The Company stresses the importance of fixed deposit and savings accounts as sources of funds to finance lending to customers.

	2016 Rs.	2015 Rs.
Year End	1.5	1.3
Maximum	1.5	1.3
Minimum	1.3	1.0
Average	1.4	1.2

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at the reporting date. Contractual maturities of undiscounted cash flows of financial assets and liabilities are shown in the table below;

2016	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
Financial Assets					
Cash in hand and balances with Banks	582,630,533	-	-	-	582,630,533
Sri Lanka Government Securities		-	-	8,222,970	8,222,970
Cash collateral on securities borrowed and reverse repurchased agreements	483,160,804	-	-	-	483,160,804
Investment in Fixed Deposits	-	-	-	-	
Loans and receivables from Customers	2,263,033,430	1,076,410,266	3,137,035,200	3,040,993	6,479,519,889
Financial investments – Available-for-sale	-	1,729,773	-	-	1,729,773
	3,328,824,767	**1,078,140,039**	**3,137,035,200**	**11,263,963**	**7,555,263,969**
Financial Liabilities				-	
Due to Banks	766,506,938	-	-	-	766,506,938
Due to other Customers	1,337,809,400	1,265,195,415	1,218,091,874	415,019,575	4,236,116,264
Other Borrowed funds	247,320,903	1,005,529,177	766,587,304	129,127,727	2,148,565,111
Other Financial Liabilities	126,771,565	-	-	-	126,771,565
	2,478,408,806	**2,270,724,592**	**1,984,679,178**	**544,147,302**	**7,277,959,878**

33.13 Liquidity risk and funding management (Contd..)

2015	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
Financial Assets					
Cash in hand and balances with Banks	277,551,226	-	-	-	277,551,226
Sri Lanka Government Securities	-	-	-	9,657,861	9,657,861
Cash collateral on securities borrowed and reverse repurchased agreements	187,475,762	-	-	-	187,475,762
Investment in Fixed Deposits	-	100,000,000	-	-	100,000,000
Loans and receivables from Customers	2,073,574,160	535,592,981	1,856,965,806	6,125,264	4,472,258,211
Financial investments – Available-for-sale	-	22,131,004	-	-	22,131,004
	2,538,601,148	**657,723,985**	**1,856,965,806**	**15,783,125**	**5,069,074,064**
Financial Liabilities					
Due to Banks	67,113,406	-	-	-	67,113,406
Due to other Customers	829,903,930	1,058,837,678	936,904,343	-	2,825,645,952
Other Borrowed funds	478,530,812	213,686,082	475,290,407	-	1,167,507,301
Other Financial Liabilities	60,656,915	-	-	-	60,656,915
	1,436,205,064	**1,272,523,759**	**1,412,194,750**	-	**4,120,923,572**

33.14 Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship. As such interest rate risk is a key risk exposure of the Company due to unanticipated movements in the future interest rates which arises from the core business activities, granting of credit facilities, accepting deposits and issuing debt instruments.

Interest rate risk is mitigated principally through minimizing the interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets particularly by the means of following.

- Effective policies and procedures designed to control the nature and amount of IRR, including clearly defined IRR limits and lines of responsibility and authority
- Appropriate risk-measurement, monitoring, and reporting systems
- Systematic internal controls that include the internal or external review and audit of key elements of the risk- management process

33.14.1 Interest Rate Risk Exposure on Financial Assets and Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2016

33.14.1 Interest Rate Risk Exposure on Financial Assets and Liabilities (Contd...)

As at 31 March 2016	Up to 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Financial Assets						
Cash and Bank Balances	-	-	-	-	582,630,533	582,630,533
Sri Lanka Government Securities - Available for Sale	-	-	-	8,222,970	-	8,222,970
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements	483,160,804	-	-	-	-	483,160,804
Investment in Fixed Deposit	-	-	-	-	-	-
Loans and Lease Receivables	2,263,033,430	1,076,410,266	3,137,035,200	3,040,993	-	6,479,519,889
Financial Investments - Available for Sale	-	-	-	-	1,729,773	1,729,773
	2,746,194,234	**1,076,410,266**	**3,137,035,200**	**11,263,963**	**584,360,306**	**7,555,263,969**
Financial Liabilities						
Due to Banks	766,506,938	-	-	-	-	766,506,938
Due to Customers	1,337,809,400	1,265,195,415	1,218,091,874	415,019,575	-	4,236,116,264
Other Borrowed funds	247,320,903	1,005,529,177	766,587,304	129,127,727	-	2,148,565,111
Other Financial Liabilities	-	-	-	-	126,771,565	126,771,565
	2,351,637,241	**2,270,724,592**	**1,984,679,178**	**544,147,302**	**126,771,565**	**7,277,959,879**
INTEREST SENSITIVITY GAP	**394,556,993**	**(1,194,314,324)**	**1,152,356,022**	**(532,883,339)**	**457,588,741**	**277,304,090**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2016

33.14.1 Interest Rate Risk Exposure on Financial Assets and Liabilities (Contd...)

As at 31 March 2015	Up to 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total Rs.
Financial Assets						
Cash and Bank Balances	-	-	-	-	277,551,226	277,551,226
Sri Lanka Government Securities - Available for Sale	-	-	-	9,657,861	-	9,657,861
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements - Available for Sale	187,475,762	-	-	-	-	187,475,762
Investment in Fixed Deposit	100,000,000	-	-	-	-	100,000,000
Loans and Lease Receivables	2,073,574,160	535,592,981	1,856,965,806	6,125,264	-	4,472,258,211
Financial Investments - Available for Sale	-	-	-	-	22,131,004	22,131,004
	2,361,049,922	**535,592,981**	**1,856,965,806**	**15,783,125**	**299,682,230**	**5,069,074,064**
Financial Liabilities						
Due to Banks	67,113,406	-	-	-	-	67,113,406
Due to Customers	829,903,930	1,058,837,678	936,904,344	-	-	2,825,645,952
Other Borrowed funds	478,530,812	213,686,082	475,290,407	-	-	1,167,507,301
Other Financial Liabilities	-	-	-	-	60,656,915	60,656,915
	1,375,548,148	**1,272,523,759**	**1,412,194,751**	-	**60,656,915**	**4,120,923,574**
INTEREST SENSITIVITY GAP	**985,501,773**	**(736,930,778)**	**444,771,055**	**15,783,125**	**239,025,315**	**948,150,490**

33.14.2 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Company's Net Interest Income.

Net Interest Income (NII) Sensitivity by Interest Rate Change

	2016		2015	
Parallel Increase/Decrease of Rate	(+/-) 1%	(+/-) 2%	(+/-) 1%	(+/-) 2%
Annual Impact on NII (Rs.)	(+/-) 12,345,499	(+/-) 24,690,999	(+/-) 9,039,158	(+/-) 18,078,316

33.14.3 Current and Non Current Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

As at 31 March 2016	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Assets					
Cash in hand and balances with Banks	582,630,533	-	-	-	582,630,533
Sri Lanka Government Securities	-	-	8,222,970	-	8,222,970
Cash collateral on securities borrowed and reverse repurchased agreements	483,160,804	-	-	-	483,160,804
Investment in fixed deposits	-	-	-	-	-
Loans and receivables from Customers	2,263,033,430	1,076,410,266	3,137,035,200	3,040,993	6,479,519,889
Financial investments – Available-for-sale	-	1,729,773	-	-	1,729,773
Investment in Real Estate	-	213,390,328	-	-	213,390,328
Intangible assets	-	-	-	10,412,332	10,412,332
Property, plant and equipment	-	-	-	158,875,727	158,875,727
Deferred tax assets	-	-	-	199,347,229	199,347,229
Other non Financial Assets	85,615,018	-	-	-	85,615,018
	3,414,439,785	**1,291,530,367**	**3,145,258,170**	**371,676,281**	**8,222,904,603**
Liabilities					
Due to Banks	766,506,938	-	-	-	766,506,938
Due to other customers	1,337,809,400	1,265,195,415	1,218,091,874	415,019,575	4,236,116,264
Other Borrowed funds	247,320,903	1,005,529,177	766,587,304	129,127,727	2,148,565,111
Current Tax Liabilities	-	1,234,979	-	-	1,234,979
Other Financial Liabilities	126,771,565	-	-	-	126,771,565
Other Non Financial Liabilities	205,921,805	-	-	-	205,921,805
Post Employment Liability	-	-	12,836,230	-	12,836,230
	2,684,330,611	**2,271,959,571**	**1,997,515,408**	**544,147,302**	**7,497,952,892**

33.14.3 Current and Non Current Analysis of Assets and Liabilities (Contd..)

As at 31 March 2015	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Assets					
Cash in hand and balances with Banks	277,551,226	-	-	-	277,551,226
Sri Lanka Government Securities	-	-	-	9,657,861	9,657,861
Cash collateral on securities borrowed and reverse repurchased agreements	187,475,762	-	-	-	187,475,762
Investment in fixed deposits	-	100,000,000	-	-	100,000,000
Loans and receivables from Customers	1,330,877,746	535,592,981	1,856,965,806	6,125,264	3,729,561,796
Financial investments – Available-for-sale	-	22,131,004	-	-	22,131,004
Investment in Real Estate	-	224,391,548	-	-	224,391,548
Intangible assets	-	-	-	10,782,315	10,782,315
Property, plant and equipment	-	-	-	112,876,928	112,876,928
Deferred tax assets	-	-	-	199,347,228	199,347,228
Other non Financial Assets	5,650,864	13,747,458	23,484,314	4,049,250	46,931,886
	1,801,555,598	**895,862,991**	**1,880,450,120**	**342,838,846**	**4,920,707,554**
Liabilities					
Due to Banks	67,113,406	-	-	-	67,113,406
Due to other customers	829,903,930	1,058,837,678	936,904,344	-	2,825,645,952
Other Borrowed funds	478,530,812	213,686,082	475,290,407	-	1,167,507,301
Current Tax Liabilities	-	4,178,809	-	-	4,178,809
Other Financial Liabilities	60,656,915	-	-	-	60,656,915
Other Non Financial Liabilities	24,108,657	35,729,407	95,462,390	-	155,300,455
Post Employment Liability	-	-	12,244,660	-	12,244,660
	1,460,313,720	**1,312,431,977**	**1,519,901,801**	**-**	**4,292,647,497**

34. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the Reporting Date which would require adjustments to, or disclosure in the Financial Statements.

35. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

As at 31 March 2016

Description of Property	Nature of Encumbrance	Carrying Amount of Assets Pledged Rs.	Included Under
Lease/ Hire Purchase rental receivable	Long term loans	3,274,359,901	Loans and receivables from Customers

As at 31 March 2015

Description of Property	Nature of Encumbrance	Carrying Amount of Assets Pledged Rs.	Included Under
Lease/ Hire Purchase rental receivable	Long term loans	1,702,816,687	Loans and receivables from Customers

36 RELATED PARTY DISCLOSURES

The company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Details of significant related party disclosures are as follows.

36.1 Transactions with Key Management Personnel

Related party include Key Management Personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company.

36.2 Key Management Personnel Compensation

	2016 Rs.	2015 Rs.
Short-term employment benefits	16,647,816	15,217,200
Directors' emoluments	6,904,761	6,904,761
	23,552,577	**22,121,961**

36.3 Transactions, arrangements and agreements with Key Management Personnel and their close members of the family of the Company

The Company enters into transactions, arrangements and agreements involving Directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions, which have been entered into with key management personnel for the relevant financial year.

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity.

Statement of Financial Position	**Reported Under**	2016 Rs.	2015 Rs.
Liabilities			
Fixed Deposits	Due to Customers	26,500,000	49,293,683
		26,500,000	**49,293,683**
Income Statement			
Interest Expense on Customer Deposits	Interest Expenses	**1,478,104**	**4,528,973**

36.4 Transactions with Other Related Parties
36.4.1 Transactions with parent Company - Union Bank of Colombo PLC.

The Group entities include the Parent , Fellow Subsidiaries and Associate companies of the parent.

Transactions with Parent Company

Statement of Financial Position	**Reported Under**	2016 Rs.	2015 Rs.
Liabilities			
Borrowings	Other Borrowed Funds	474,999,994	91,666,668
Other Payables	Other non Financial Liabilities	950,000	950,000
		475,949,994	**92,616,668**
Income Statement			
Interest Expense on Borrowings	Interest Expense	36,833,288	12,361,309
		36,833,288	**12,361,309**
Other Transactions			
Borrowings obtained during the Year		500,000,000	100,000,000
Borrowings settled during the Year		(116,666,674)	(8,333,332)
		383,333,326	**91,666,668**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2016

37. SEGMENT INFORMATION.

For the Management purposes, the Company is organised in to five operating segments based on the services offered to customers. The following table presents income, profit and certain asset and liability information regarding the Company's operating segments.

2016	Lease	Hire Purchase	Factoring	Special Purpose and Hire Purchase Loans	Housing Loans	Others	Total
Interest Income	412,439,477	92,640,996	162,782,641	135,343,671	8,742,894	94,018,504	905,968,184
Interest Expenses	(257,736,762)	(22,541,147)	(92,726,583)	(107,752,932)	(15,491,701)	(32,635,481)	(528,884,607)
Net Interest Income	**154,702,715**	**70,099,850**	**70,056,058**	**27,590,739**	**(6,748,807)**	**61,383,023**	**377,083,577**
Fee and Commission Income	21,414,181	-	27,261,719	436,400	3,600	17,900,124	67,016,024
Fee and Commission Expenses	(5,724,028)	-	(7,287,081)	(116,650)	(962)	(4,784,718)	(17,913,440)
Net Fee and Commission Income	**15,690,152**	**-**	**19,974,639**	**319,750**	**2,638**	**13,115,406**	**49,102,584**
Other Operating Income (Net)	-	-	-	-	-	82,164,119	82,164,119
Total Operating Income	**170,392,867**	**70,099,850**	**90,030,696**	**27,910,489**	**(6,746,169)**	**156,662,548**	**508,350,280**
Impairment Losses on Loans and Receivables from Customers	(61,973,368)	(23,607,134)	(6,364,851)	(16,116,388)	8,977,690	33,467,009	(65,617,042)
Gains/ (Losses) on Real Estate	-	-	-	-	-	2,130,133	2,130,133
Net Operating Income	**108,419,499**	**46,492,716**	**83,665,845**	**11,794,101**	**2,231,521**	**192,259,690**	**444,863,371**
Staff Costs	(69,788,860)	(6,103,595)	(25,108,108)	(29,176,879)	(4,194,777)	(8,836,896)	(143,209,115)
Depreciation of Property, Plant and Equipment	(8,463,654)	(740,214)	(3,044,989)	(3,538,430)	(508,722)	(1,071,696)	(17,367,706)
Amortisation of Intangible Assets	(722,717)	(63,207)	(260,014)	(302,149)	(43,440)	(91,513)	(1,483,040)
Other Expenses	(87,329,170)	(7,637,636)	(31,418,628)	(36,510,019)	(5,249,067)	(11,057,908)	(179,202,429)
Operating Profit before Value Added Tax (VAT) and NBT	**(57,884,902)**	**31,948,062**	**23,834,105**	**(57,733,377)**	**(7,764,485)**	**171,201,677**	**103,601,082**
Value Added Tax (VAT) on Financial Services							(26,057,422)
Profit/(Loss) Before Taxation	**(57,884,902)**	**31,948,062**	**23,834,105**	**(57,733,377)**	**(7,764,485)**	**171,201,677**	**77,543,660**
Tax Expense							669,086
Profit/(Loss) for the Year	**(57,884,902)**	**31,948,062**	**23,834,105**	**(57,733,377)**	**(7,764,485)**	**171,201,677**	**78,212,745**
Total assets	**4,007,196,992**	**350,461,514**	**1,441,679,030**	**1,675,303,219**	**240,859,310**	**507,404,537**	**8,222,904,603**
Total liabilities	**3,653,912,544**	**319,563,956**	**1,314,577,023**	**1,527,604,323**	**219,624,555**	**462,670,492**	**7,497,952,892**

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2015

37. SEGMENT INFORMATION.

For the Management purposes, the company is organised in to five operating segments based on the services offered to customers. The following table presents income, profit and certain asset and liability information regarding the Company's operating segments.

2015	Lease	Hire Purchase	Factoring	Special Purpose and Hire Purchase Loans	Housing Loans	Others	Total
Interest Income	213,257,218	106,369,106	95,990,079	94,663,525	12,357,299	64,005,147	586,642,376
Interest Expenses	(132,244,822)	(46,847,674)	(64,720,067)	(51,929,760)	(17,674,276)	(65,036,521)	(378,453,120)
Net Interest Income	**81,012,396**	**59,521,432**	**31,270,012**	**42,733,766**	**(5,316,976)**	**(1,031,374)**	**208,189,256**
Fee and Commission Income	11,943,704	2,535,214	19,450,846	422,978	1,807	8,198,715	42,553,264
Fee and Commission Expenses	(3,938,612)	(1,529,987)	-	165,099	-	(10,819,348)	(16,122,848)
Net Fee and Commission Income	**8,005,092**	**1,005,227**	**19,450,846**	**588,077**	**1,807**	**(2,620,633)**	**26,430,416**
Other Operating Income (Net)	-	-	-	-	-	14,252,603	14,252,603
Total Operating Income	**89,017,488**	**60,526,659**	**50,720,858**	**43,321,843**	**(5,315,170)**	**10,600,596**	**248,872,275**
Impairment Losses on Loans and Receivables from Customers	(22,002,770)	18,947,230	(7,615,589)	(17,328,836)	4,468,684	(2,332,032)	(25,863,313)
Gains/ (Losses) on Real Estate	-	-	-	-	-	77,948,380	77,948,380
Net Operating Income	**67,014,719**	**79,473,889**	**43,105,269**	**25,993,007**	**(846,486)**	**86,216,945**	**300,957,342**
Staff Costs	(35,719,628)	(12,653,663)	(17,481,037)	(14,026,346)	(4,773,862)	(17,566,513)	(102,221,049)
Depreciation of Property, Plant and Equipment	(4,079,435)	(1,445,138)	(1,996,459)	(1,601,908)	(545,209)	(2,006,220)	(11,674,369)
Amortisation of Intangible Assets	(491,901)	(174,256)	(240,734)	(193,159)	(65,742)	(241,911)	(1,407,703)
Other Expenses	(54,597,241)	(19,341,050)	(26,719,663)	(21,439,188)	(7,296,820)	(26,850,311)	(156,244,274)
Operating Profit before Value Added Tax (VAT) and NBT	**(27,873,486)**	**45,859,781**	**(3,332,625)**	**(11,267,595)**	**(13,528,118)**	**39,551,989**	**29,409,947**
Value Added Tax (VAT) on Financial Services							(7,795,375)
Profit/(Loss) Before Taxation	**(27,873,486)**	**45,859,781**	**(3,332,625)**	**(11,267,595)**	**(13,528,118)**	**39,551,989**	**21,614,572**
Tax Expense							(9,420,602)
Profit/(Loss) for the Year	**(27,873,486)**	**45,859,781**	**(3,332,625)**	**(11,267,595)**	**(13,528,118)**	**39,551,989**	**12,193,970**

UBF SPORTS CLUB

A grand New Year festival with elaborate competitions were held at the 'Che Adventure Park' in Avissawella, as a stepping stone by committed staff. This exquisite event paved way for a new beginning for all staff members who displayed their acumen for traditional sports and activities while maintaining the espirit de core and comradeship.

Robust cricket team of UB Finance actively participated Mercantile G' Division cricket tournament and due to their sheer skills and perseverance were able to get elevated to play at E' Division in 2016. They continued their prowess gaining laurels and gaining semifinalists at keenly contested E' Division games. As a reward for their performances at Mercantile Cricket Tournament, 2nd consecutive 'Best Batsman' award was availed by UB Cricket squad and 'Man of the Series' award as well. This enabled UB Cricket squad to play in Mercantile C' Division games in the upcoming season. The much sought after Annual Mercantile Athletic meet was held at Mahinda Rajapakshe International Stadium, Diyagama with active participation by our staff members, showcasing their talents in the field of athletics as well. Our winning team was awarded with one silver and two bronze medals with active participation by UB athletes. Further, our staff members became victors at the Annual Mercantile Swimming Meet 16' by gaining three bronze medals.

Marking the pinnacle of all the UB activities, a salubrious theme night with host of musical activities was held at Sapphire Hotel, Wellawatte as an appreciation for exceptional performance of UB staff. This event concluded with the year-end integrating all the staff into a spirited re-union.

Awurudu Festival 2015

"UBF Cricket Team 2016"

Mercantile Swimming Meet Medliests

Mercantile Athletic Meet Medliests

UBF Night

Mercantile Cricket Tournament
(Left) Man of the Tournament
(Right) Best Batsman

UBF Night

CORPORATE INFORMATION

Company Name	:	UB Finance Company Limited
Statutory Status	:	Limited Liability Company
Incorporated On	:	12-07-1961
Company Reg.No	:	PB 113 (Previously PVS/PBS 1940)
Governed By	:	The Companies Act No.07 of 2007, The Finance Business Act No.42 of 2011 & The Finance Leasing Act No. 56 of 2000
Registered Office	:	No. 10, Daisy Villa Avenue, Colombo 04
Head Office	:	No. 10, Daisy Villa Avenue, Colombo 04
Telephone	:	+94 (0) 11 4 468 888
Fax	:	+94 (0) 11 2 508 517
E-mail	:	info@ubf.lk
Website	:	www.ubf.lk
External Auditors	:	M/s. Ernst & Young
Company Secretary	:	P W Corparate Secretarial (Pvt) Ltd

Bankers

Union Bank of Colombo PLC
Nations Trust Bank PLC
Peoples Bank PLC
Sampath Bank PLC
Deutsche Bank of Sri Lanka
Hatton National Bank PLC
Seylan Bank PLC
Bank of Ceylon PLC
Commercial Bank of Ceylon PLC

VAT Registration No : 104019404 - 7000

LOCATION	ADDRESS	TELEPHONE	FAX
Head Office	No. 10, Daisy Villa Avenue, Colombo 04	+94 (0) 11 2 168 888	+94 (0) 11 2 508 517
Ambalangoda	No. 27, Wickramasuriya Mawatha, Ambalangoda.	+94 (0) 91 2 254 605	+94 (0) 91 2 254 604
Galle	No.121, Colombo Road, Kaluwella, Galle.	+94 (0) 91 2 235 875	+94 (0) 91 2 235 877
Kadawatha	No. 143/B, Kandy Road, Kadawatha.	+94 (0) 11 2 927 474	+94 (0) 11 2 924 646
Kandy	No. 75, Yatinuwara Weediya, Kandy.	+94 (0) 81 2 224 405	+94 (0) 81 2 224 408
Kurunegala	No. 64, Colombo Road, Kurunegala.	+94 (0) 37 2 230 902	+94 (0) 37 2 230 904
Matara	No. 268, Dharmapala Mawatha, Matara.	+94 (0) 41 2 227 333	+94 (0) 41 2 227 337
Mawanella	No. 89, Kandy Road, Mawanella.	+94 (0) 35 2 248 896	+94 (0) 35 2 248 899
Negombo	No. 539, Colombo Road, Kurana, Negombo.	+94 (0) 31 2 233 199	+94 (0) 31 2 227 793
Panadura	No. 223 A,1st Floor, Galle Road, Panadura.	+94 (0) 38 2 246 144	+94 (0) 38 2 246 146
Polonnaruwa	No. 05, Batticaloa Road, Polonnaruwa.	+94 (0) 27 2 223 800	+94 (0) 27 2 223 802
Tissamaharama	No. 163, Kachcheriyagama, Tissamaharama.	+94 (0) 47 2 238 512	+94 (0) 47 2 239 630
Nuwara Eliya	No. 32/1, Park Road, NuwaraEliya.	+94 (0) 52 4 650 300	+94 (0) 52 4 650 302
Gampaha	No. 56, Bauddhaloka Mawatha, Gampaha.	+94 (0) 33 4 501 522	+94 (0) 33 4 501 522
Kalmunai	No. 141B, Main Street, Kalmunai.	+94 (0) 67 4 501 011	+94 (0) 67 4 501 013
Rathnapura	No. 10, Colombo Road, Rathnapura.	+94 (0) 45 4 650 300	+94 (0) 45 4 650 302
Factoring Primier office	No.12, RA De Mell Mawatha, Colombo 05.	+94 (0) 11 4 510 343	+94 (0) 11 4 501 345

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