SUSTAINED GROWTH THROUGH STABILITY

UB FINANCE
A UNION BANK COMPANY

ANNUAL REPORT 2017

At UB Finance, we believe that the foundation of our organisation rests on the ability to consolidate our strengths and synergies. Like ants, we are focused on combining our individual talents to help us grow stronger so that we can steer the organisation to greater heights and beyond. Our team efforts help us to create a solid foundation that helps us in our journey to be sri Lanka's preferred financial services provider.

SUSTAINED GROWTH THROUGH STABILITY

UB FINANCE
A UNION BANK COMPANY

VISION

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

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.**

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

CORE VALUES

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

Content

"More importantly, our growth, firmly moored on a sustainable vision is thriving on a range of innovative asset and liability products which form the springboard for future revenue streams."

Alexis Lovell , MBE
Chairman

Chairman's Message

Dear Stakeholder,

The financial year 2017 has been an extremely challenging one, but also a fulfilling year for all of us at UB Finance, given that we have a justifiable claim to have succeeded in achieving our corporate objectives against a less-than favourable macro environment of fiscal and monetary policy fluctuations reverberating across the national economy. Against this backdrop and keeping in mind the combined legacy of both governance and financial weaknesses inherited by the Company at its entry into the Union Bank fold, it is indeed a pleasure to review the far-reaching progress we have achieved in terms of recovery and reforms, notched for the period under review.

Our overarching priority in relation to the Company's recovery and rebranding has been three fold. Firstly, to keep improving operational aspects in order to ensure competitive service delivery within an increasingly aggressive financial services market; secondly, to tackle all the legacy issues pertaining to the financial health of the Company with the objective of strengthening the financial foundations to facilitate balance sheet growth on a sound footing and thirdly, to expeditiously resolve legal discrepancies that were inherited. This includes ambiguities regarding rightful shareholders so we provide protection of shareholders' rights. It is indeed an achievement to report that we have made tangible progress in all of the above fundamentals during the year under review, anchoring overall stakeholder welfare more securely within the strategic growth paradigm mapped out for UB Finance.

In the first instance, we have maintained vigorous upward financial momentum, while also strengthening our operational and governance foundations to facilitate sustainable business expansion. Our robust financial performance for the year clearly testifies to the advances we have initiated in internal controls, oversight procedures and business process improvements, that have converged in the form of strong top line and bottom line growth. The best indicator would be the surge in our loan volumes from around Rs 25 Mn per month, to around Rs 400 Mn.

Riding on this business thrust, our P&L for this accounting period clearly indicates an encouraging upswing in profitability. More importantly, our growth, firmly moored on a sustainable vision is thriving on a range of innovative asset and liability products which form the springboard for future revenue streams. This is grounded on an astute brand repositioning strategy that has successfully breathed new life into the UB Finance brand as a stable and trustworthy name, with no residual taint from the past. Our branch network expansion model of cherry picking the most strategic locations for physical presence, has ensured high visibility coupled with maximum market reach.

As a core component of constructing a healthy and genuine reflection of the financial status of the Company to all stakeholders, we are also in the process of restructuring our balance sheet. The Company has been mired in many legacy issues that burden the balance sheet, suppressing the achievements of the recovery process and hindering the possibility of regenerating the Company under a clean slate. Hence, we are working doubly hard to clear the existing impediments and I am happy to report that we are in communication with the Central Bank for official regulatory sanction in this regard. I am confident that our shareholders will soon be able to view a clear balance sheet heralding a new beginning for the Company.

Through court interventions, we have also reached a resolution regarding our rightful shareholders to clearly designate the lawful shareholders, and have issued share certificates to safeguard their rights in perpetuity. We are now in the midst of addressing other remaining legalities to ensure fair play by all our shareholder categories. While we have now met nearly 40% of our commitments to our depositors, we are yet to resolve the balance dues that were converted into non-voting shares.

As I explained in my message in the previous annual report, we gave our depositors the option of converting a portion of their shares into non-voting shares, which were to be listed. Our depositors backed our strategy wholeheartedly, clearly demonstrating their confidence in the present leadership and in our recovery strategy. However, this enthusiasm resulted in the non-voting share base exceeding the voting share capital well beyond the regulatory limits. Hence, we are currently expeditiously exploring options to inject a large dose of new equity in order to rebalance the share structure of UB Finance to regulatory stipulations, while also ensuring parity by our voting shareholders.

In terms of business expansion on the other hand, we are definitely on a stronger footing, with the latest contribution to tier 2 capital by our principal shareholder, Union Bank. The Company is better capitalised for business expansion and we are already in talks with potential investors to dramatically widen the capacities of the Company. This is aimed at taking the business to a completely different level, while meeting all Central Bank solvency requirements. In fact, we have received a great deal of investor interest both locally and from beyond Lankan shores, indicating the future potential of the Company. This also reflects the increasing investor confidence we have garnered through our quality of management. When these investments materialise, the capital fillip will give us the opportunity to leverage our license as a registered finance company to its full potential and to also maximise on Group synergies. This includes using the network of 70 Union Bank branches island wide, which has potential to dramatically expand our market reach.

However, whilst our strategic blueprint has been well laid, we do face an increasingly challenging future in the existing rising interest environment, which has heightened the financial risk profile for the entire financial sector. Steadily rising market rates are at present the single greatest obstacle to growth with borrowing rates averaging 15%, and lending rates touching 20% to 21%, driving up the cost of vehicles and sharply reducing the average person's access to credit. The pressure on repayment capability meanwhile, is heightening portfolio risks of lenders. The net outcome is a rapidly narrowing market size and intense competition by all existing lenders for a slice of this shrinking pie.

Given this uncompromising scenario, we at UB Finance have leveraged creative concepts to think beyond the box and redefine our market segments within comfortable risk-return parameters. We have realigned our marketing strategies and lending portfolio within an average loan size of Rs 1 to Rs 1.5 million, catering to niche SME segments requiring financial support that will facilitate growth into the next level.

Our team of experts are also very perceptive to the dynamic risk backdrop in which we are currently operating and we have already commenced overhauling enterprise risk management systems and oversight procedures. In fact, I would be so bold as to maintain that UB Finance may have one of the most stringent internal control systems among the country's LFCs. The Company was subjected to repeated internal and external audits during the financial year in a two tier risk management process, where risk exposure is scrutinised at both Group level and also at Company level. This is reinforced by regular internal and external audits, including inspections by the Central Bank, to keep a close watch on the Company's financial health and quality of financial and operational management.

The risk environment is also expanding into the digital domain. As Sri Lanka becomes increasingly enmeshed in an interconnected digital network, we increasingly expose ourselves to the threat of cyber terrorism, hacking and other forms of hitherto unfamiliar dangers. Although UB Finance is for the most part shielded from this threat by the lower level of public financial transactions we engage in compared to other financial institutions, we have taken heed of this rising threat, and as part of a group strategy are evaluating our options on cyber-defences. Preliminary system assessments have already been conducted and systemic solutions will be deployed to address any potential chinks in the armour.

On the other side of the coin, we are actively researching new technologies and automations to drive the business, particularly with regard to back-end efficiency enhancements and also to expedite front end service delivery. This is being done with the ultimate objective of significantly boosting overall competitiveness of the Company. Although our investment in human development and training is a matter of pride, the rising demand for professional personnel also makes retention of trained human capital rather challenging. However, from our experience with this amazing team we have developed, I do know that we have one of the best in the business and that their commitment and ownership to our ultimate vision is what augments the success of our business.

Within this milieu of upward spiralling cost structures and high employee turnover, innovative automation is the most viable route for future sustainability. Hence, we are formulating a digitisation strategy by focusing simultaneously on people, processes and technology that will completely transform UB Finance from the current traditional business, into a 21st century financial services provider operating on a hi-tech platform.

The digital strategy, coupled with innovative new products and services, will position UB Finance to quickly capitalise on the market opportunity that will arise when interest rates eventually stabilise at a more benign level. The Company's strategic middle class market position will be the country's growth hot-spot of the future. One reason for our acquisition of UB finance, was to realise the opportunity presented by the inevitable upward movement in per-capita income, from around 3,700 US dollars to the USD 4,500 mark, within the next two to three years. This income growth will increase the share of disposable income of households, while Government housing developments will create new demand among the middle class. In this scenario, consumer spending is set to climb sharply, when interest rates come within reach of the larger population demographic.

These market opportunities are now more feasible than ever before. The past year's gains in cleaning up the web of financial and legal conundrums have cleared the way for UB Finance to move forward unhampered, as a new corporate entity, into a new phase of growth. I call on all our stakeholders to join us in this new journey.

Another transformation we are initiating for ease of operations, is in changing our financial reporting period. Hence, our next year's annual report and financial statements will pertain to a shorter nine month period, from 1st April 2017 to 31st December 2017, as opposed to the traditional 12 month reporting cycle. This variation is aimed at aligning UB Finance with the Union Bank Group's financial reporting cycle, which concludes by end-December, thereby further integrating the Company within overall Group dynamics and Group oversight mechanisms.

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 would like to express a word of appreciation to my dynamic team for the current year's highly commendable performance. They have been my greatest asset, contributing substantially to the organisation. My thanks are also extended to our parent, Union Bank, for the capital contributions to finance our growth plans. I believe we are now closer than ever to attaining our objectives.

Alexis Lovell, MBE
Chairman

"UB Finance continues to follow its strategy of leveraging on its core competencies and strengths to fuel growth"

Ransith Karunaratne
Director / Chief Executive Officer

Macro-economic Overview

With global developments and volatilities in the form of Brexit, US elections, increased tensions in Korea, the Middle East and strained relationships between USA, Russia and China, economic activity was both restrained and uneven across many continents. As a direct result the global economy grew below its potential. This in turn lowered demand for Sri Lankan exports and further weakened the Rupee against the US Dollar. The Country's economy adjusting to these adverse global conditions and its own major political changes was sluggish and unresponsive compared to the previous year. Unforgiving changes in the weather such as extreme drought and flood conditions coupled together with delays in anticipated irrigation projects created many issues for the agriculture industry in Sri Lanka. On a positive note the industrial and services sectors grew with minor contributions from tourism, textiles and apparels and significant contributions from construction and financial services. However, political indecisiveness with regard to general policy, major infrastructure projects and developments in the North and East prevented the economy from reaching its expected growth momentum. On the plus side, policy changes in the US leading to America withdrawing from trade arrangements across the globe including Asia, may lead to China and India playing an increasingly dominant role in the region, this could present new opportunities for the Country if managed prudently.

Financial Sector Overview

Once again the Sri Lankan financial services sector mirrored the global and local economic movement. Monetary conditions tightened throughout the year with the increase of policy rates and the statutory reserve ratio by the Central Bank of Sri Lanka. This coupled with the continuation of the imposed loan to value ratio on financing of motor vehicles, exchange rate depreciation and changes in duty and excise taxes on motor vehicles resulted in slower credit growth than expected and thinning margins. While the growth of the sector was funded mainly through borrowings, the industry gradually moved away from the traditional core business of vehicle leasing to more diversified loan products. On a positive note during 2016 LFC / SLC sector expanded its asset base to exceed the LKR One Trillion milestone. There was also an overall improvement to asset quality with the industry non performing advances falling during the period.

Key Performance Highlights

In spite of the adverse economic and financial conditions, during the financial year 2016/2017 the Company achieved significant business volumes through the persistence and superior service of its sales team. Total income for the period increased by Rs.523 Mn to Rs.1,578 Mn. The profit before tax for the year 2016/2017 was Rs.93 Mn in comparison to Rs.77 Mn in 2015/2016. As in the past, the Company has continuously invested in strategically chosen areas of brand and capacity building which is now leading to substantial returns.

Our asset and liability positions remained well matched whilst we maintained sound levels of liquidity. The depositor base increased from Rs.4,236 Mn to Rs. 6,063 Mn being a 43% increase, once again highlighting the trust and confidence placed by the depositors in the Company. Loans and receivables from customers grew from Rs. 6,896 Mn to Rs. 9,028 Mn increasing by 31% despite the heightened loan to value ratio on financing due to the diversification of the portfolio and superior service offered to customers. Personal referral by existing customers on the Company service standards accounted for a significant amount of retained and repeated business as well as the introduction of many new customers to the Company. During the year we strengthened our Tier II capital through an Unlisted, Unsecured, Redeemable, Subordinated Debenture for Rs. 300 Mn. The total assets of the Company increased by 23% with the asset base standing at Rs.10,095 Mn as at 31.03.2017.

ICRA Lanka Limited re affirmed the issuer rating of (SL) BB with a stable outlook in recognition of the Company's growth prospects and stable outlook.

Business Review

UB Finance continues to follow its strategy of leveraging on its core competencies and strengths to fuel growth. From its humble beginnings UB Finance has today become a noted and respected Finance Company in its own right. Our commitment towards looking at strengths, weaknesses, opportunities and threats anew and doing things differently and innovatively due to our legacy has enabled UB Finance to be current, staying ahead of the game despite our size.

Our range of products is conceptualised and designed to serve the financial needs of all industries and sectors, weaving strong, long lasting relationships with our customers. Investment solutions such as fixed deposits and savings with a wide-range of features and options are offered to suit our customer's varied investment needs. Although we did not aggressively pursue deposit mobilization during the year our fixed deposit base grew substantially especially among senior citizens. This is directly owing to the high quality personalised business relationships maintained by the deposit team which is imperative to this particular segment. "Flex-it" fixed deposits launched in November 2016, was another innovative investment product introduced by the Company.

In light of the loan to value ratio on financing, exchange rate depreciation and changes in duty and excise taxes on motor vehicles, the main challenge was to strengthen the Company's asset base. A diverse product portfolio of traditional financial solutions in the form of leasing, vehicle, mortgage and personal loans with innovative terms and conditions as well as non traditional products such as working capital solutions through factoring, cheque discounting and easy drafts tailored to fit our customer's requirement, capacity and cash flows ensured the required asset base growth. The year was spent fortifying our existing customer touch points including the network of 17 branches / offices and various vehicle dealers, vehicle importers, brokers, insurers, etc. Brand building, marketing activities and exceptional service standards maintained year after year kept a constant stream of business flowing through these well established channels.

The Company celebrated the 1st anniversary of its Premier Factoring Service Centre. This Centre has enabled the Company to penetrate the SME sector at a rapid pace lending to individuals or small businesses for wealth creation rather than consumption. UBF is uniquely positioned to manage this risk through specialized, industry savvy staff, who have pioneered Factoring solutions in Sri Lanka for several decades. The customised automated factoring solution conceptualised and designed by our own staff members assists us to stay ahead of the competition. It is interesting to note that this system designed several years ago by our own team is just now being deployed across the finance industry as the go to factoring IT solution.

Due to multiple increases in policy rates during the year the Company's interest cost increased. However coupled with a strong deposit base and flexible bank credit lines, we have been able to maintain good margins and a strong liquidity position throughout the year. The cost structure of the Company is equally important to our long term success. Ongoing cost control efforts were aimed at reducing the cost to income ratio along with the top line growth to meet the bottom line expectations during the year. We are happy to note that through these efforts we have managed to re-engineer certain processes and eliminate duplicated or unproductive costs to streamline the cost structure without compromising quality standards.

Based on recommendations made by our Parent Company to align our operating structure with that of the bank, the lending process including marketing, channels, credit and operations was completely realigned and strengthened, improving business volumes and service standards while minimising risk. This move has helped us look inward to consolidate our competitive strengths and accurately position our team and workflow to pinpoint and make the maximum use of the opportunities presented by the various industries and sectors in need of financial solutions. It has also brought us operational and financial discipline leading to a sustainable lending portfolio with minimal NPL, by way of which we are also able to guide our customers in responsible financial practises. Extensive restructuring was also undertaken in the context of the collection process where the recovery and legal divisions were both expanded and reinforced. This has paid lucrative dividends in the form of a drop in our non performing portfolio along with a reduction in the impairment charges. Our continued focus on recoveries and arrears management will no doubt augur well for further reduction of NPL trends in the future.

During the year, UB Finance continued to review and improve its business operations, documentation, procedures, processes and systems. Risk management, compliance & corporate governance have always been the structural back bone of the Company since its acquisition. The increased sophistication of the Sri Lankan customer and their varied investment and financial needs, has made finance business operations much more complexed, introducing new risks into the industry. In order to understand and manage these risks and further strengthen the Company, an independent risk and compliance division was set up in 2016/2017. These measures will increase our understanding of and hone our decision making skills with regard to risk and the management of same, ensure transparency and accountability and enforce better governance throughout all our business practises.

The Company's continued exceptional performance is a direct result of the efforts of our loyal and dedicated team. It is my privilege to lead this talented, passionate, hard working team of 249 staff members stationed island wide, who have banded together to elevate the Company from strength to strength. Over the next decade the Sri Lankan workforce will experience the entry of the "millennial employee" completely changing the traditional HR mould, requiring workplace environment, culture and HR practises to realign itself with the expectations and needs of this generation. In light of same UB Finance continues to recruit young, talented and driven individuals who are mentored, trained and fostered into our team to support the core values and business principles of the Company in an integrity based, performance driven, service oriented culture and become our future leaders. We are also dedicated to enriching the employee experience through empowerment, increased performance based rewards, personal affirmation of achievements and social interaction.

In keeping with the consolidative steps taken this year, the Management has looked into taking its first steps towards introducing a core banking solution that would give the Company a competitive edge, with reduced costs and faster turnaround times, relieving staff of routine responsibilities and enabling them to engage in alternative value added activities. This in turn would increase customer convenience and maximise customer service. The new system will also provide greater information for accurate, well-informed and timely decision making. These improved technologies would assist us to expand our digital foot print through various channels and services, especially reaching out to the new millennial customer, providing UB Finance new opportunities to increase our customer base and to widen our reach.

Looking Ahead

Despite it being a challenging year we are nonetheless optimistic about the outlook of the Sri Lankan economy and the financial services sector in terms of growth and new opportunities. The Company expects to take advantage of these opportunities to expand our foot print across the island.

The overarching emphasis would be to maintain our phenomenal growth momentum of the both top line and bottom line and while focusing on strategy and diversifying business activities. Automation will play a key role in driving operational excellence, cost savings and risk management. Mindful of these goals, the Company will continue to actively pursue organic growth opportunities such as increased output, customer base expansion, product development, geographical reach as opposed to inorganic measures such as mergers and acquisitions in line with the vision of our Parent Company Union Bank.

We will remain a strong, well capitalised finance company, backed by the strength of a bank, built on a foundation of trust, integrity and ethical practises which flow throughout all our business activities.

Appreciations

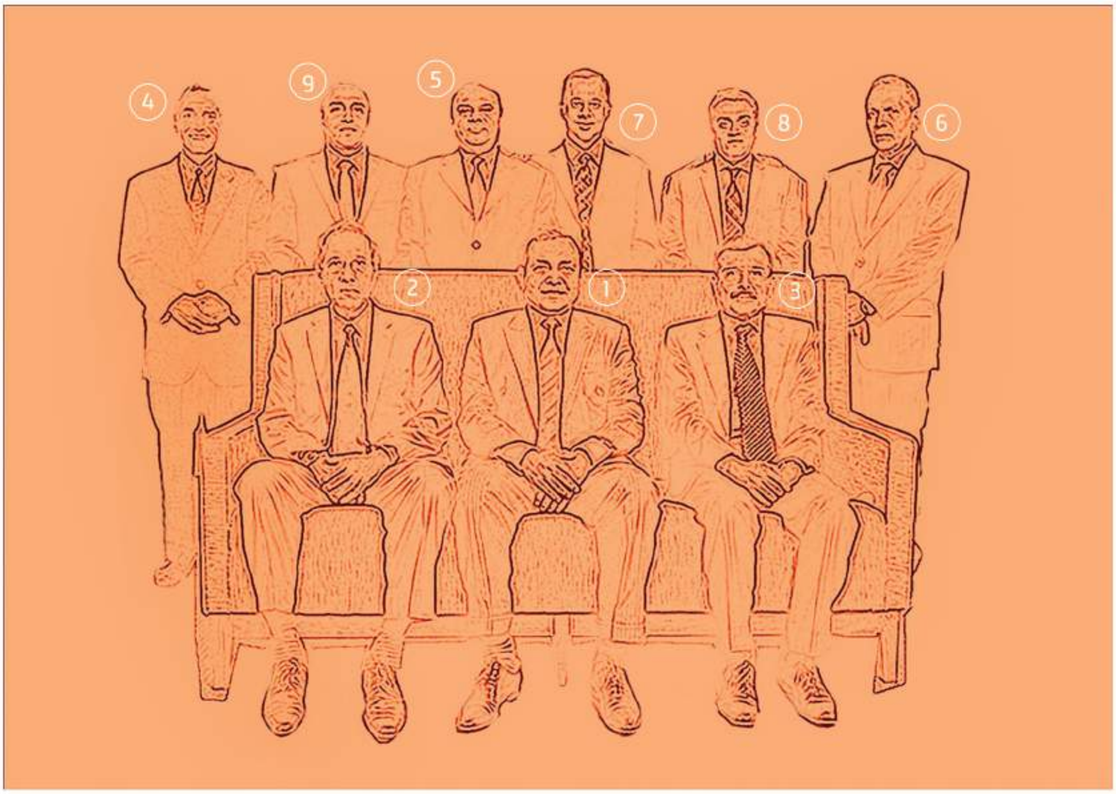
I convey my sincere thanks to the Chairman, Mr. Alexis Lovell and my colleagues on the Board for the continued guidance, support and trust placed in me and the UBF Team.

I also express my gratitude to the Governor, Directors and officials of the Central Bank of Sri Lanka and other regulatory bodies for the vital role they play in the industry, their advice and continued assistance has enabled us to further strengthen the Company. I also extend my thanks to M/s. Ernst and Young our external auditors and our internal audit team for enabling us to carry out and finalise the audits in a professional and timely manner and also for their valuable input throughout the year.

I extend my deepest thanks to the Senior Management Team, whose boundless energy and drive have pushed the Company forward. My most sincere appreciation to the UB Finance Team, it is you who have made this wonderful journey possible. Your unwavering loyalty and commitment towards the Company's success is a daily inspiration to me.

In conclusion, I wish to thank all the stakeholders of the Company, especially the depositors, customers and shareholder of UB Finance Co. Ltd. It has been a challenging year and we thank you for providing us with the opportunity to be your partner in progress. The Board of Directors and I value your support and loyalty in our journey towards achieving our vision of being the preferred Financial Services Provider in Sri Lanka.

Ransith Karunaratne
Director / Chief Executive Officer



1	Alexis Lovell, MBE	- Chairman
2	Ananda Atukorala	- Deputy Chairman
3	Ranvir Dewan	- Non Executive Director
4	Davis Golding	- Non Executive Director
5	Upali Wijeyesekera	- Non Executive Director
6	Indrajit Wickramasinghe	- Non Executive Director
7	Malinda Samaratunga	- Non Executive Director
8	Chandrakumar Ramachandra	- Non Executive Director
9	Ransith Karunaratne	- Director / Chief Executive Officer

Board of Directors

*"A strategic board has a view of looking ahead,
an insight to look deeper,
and competency to look beyond"*

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 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 & Real Investment Holdings Pte Ltd. Mr. Lovell is well respected and recognized 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 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 PSC and was a former advisor to the Ministry of Policy Development & Implementation.

Presently, he serves as an Independent Non-Executive Chairman of The National Development Bank PLC, Development Holdings (Pvt) Ltd & NDB Security Pvt Ltd. He is also a Non-Executive Director of United Motors Lanka PLC, Unimo Enterprises Ltd, TVS Lanka Ltd, Colombo City Holdings PLC., Arni Holdings and Investments (Pvt.) Ltd., Unawatuna Boutique Resort Pvt Ltd. He was a director of Union Bank of Colombo bank PLC for a period of nine years. He 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, and was also a former Director of the Sri Lanka Banks Association (Guarantee) Ltd & Credit Information Bureau of Sri Lanka (CRIB). He holds a B.Sc (Leeds,UK), MTT (North Carolina, USA) and a MBA.

MR. RANVIR DEWAN
Non-Executive Director

Mr. Ranvir Dewan joined TPG Capital in July 2006 and is based in Singapore. With effect from May 01, 2017 he is a senior advisor to TPG Capital .He was formerly 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 Shriram City Union Finance Limited and Union Bank of Colombo PLC and a member of the Executive, Audit and Risk Committees of these institutions.

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, ShoreCap 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 USbased 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.

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 26 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 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 Samaratunge 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 an 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 Samaratunge 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. 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. 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 Master‟ Degree in Business Administration (MBA) from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura.

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, rebranding 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).

" While the economic conditions continued to be challenging, the organisation leveraged on well orchestrated initiatives to ensure stability "

Suresh Kandiah
Chief Operating Officer

Operational Review

The year under review marks one of sustained growth through stability for UB Finance (UBF). While the economic conditions continued to be challenging, the organisation leveraged on well orchestrated initiatives to ensure stability, which was our prominent focus for the year. The dedication and hard work of employees, the continued trust and confidence of customers, and the leadership and strategic direction provided by the management and Directors all played a significant role in propelling us forward to exceed targets and reach greater profitability.

The performance recorded by the company amidst these challenges was commendable. The results for the year highlighted an impressive growth over the previous year. Income for the period increased by 49.6% to Rs. 1,578 Mn and the total operating income for the period also increased by 22.6% to Rs. 623.1Mn.

The profit before Tax for the year 2016/17 was Rs.93.4Mn in comparison to Rs. 77.5Mn in 2015/16. Also during the period the depositor base increased from Rs.4,236 Mn to Rs.6,063Mn being an 43.1% increase, highlighting the confidence placed by depositors in the Company. Loans and receivables from customers grew from Rs. 6,896 Mn to Rs. 9,028Mn, an increase of 30.9% due to the focused efforts placed towards optimizing outcome from our network. The total assets increased by 22.8%, with the asset base standing at Rs.10,095 Mn as at 31.03.2017.

We continued to focus on strengthening our core business which is leasing, while supporting our customers needs through an enhanced suite of product and service offerings. We offer 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. A new addition to our portfolio was the introduction of "Flex-it", a flexible midterm product which guarantees a higher return on deposits for our customers. We continued to further enhance our deposit base despite numerous emerging challenges, once again reflecting the confidence placed by our depositors in UB Finance.

We continue to create innovative tailor made solutions for our customers that offer greater convenience, better support and enhanced flexibility.

Income Growth

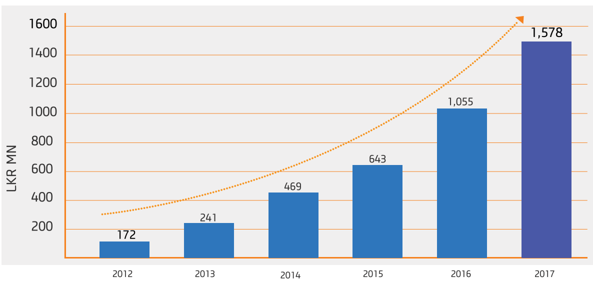
50%

UB Finance's growing focus on the SME sector continued to gain momentum during the year. 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 the SME sector.

The restriction of the loan to Value ratio (LTV) on leased vehicles caused a significant decline in the demand for unregistered vehicles. However, this opened up opportunities for us in the market for registered vehicles, which we explored successfully.

Brand and image building initiatives also continued during the year to increase market share and augment our service offering.

Revenue Growth



A highly engaged and energetic team is the backbone of UB Finance. Their commitment and dedication, to their roles and the organization, have resulted in the UBF being able to make great progress during the year. Therefore we provide an enriching work environment that motivates and inspires our employees to perform at peak. We place greater focus on career development, training and skills development towards enhancing the productivity of our staff.

While pursuing our quest for better performance we did not ignore our responsibility to society. In 2016 and 2017 Sri Lanka was hit by severe storms causing widespread flooding and landslides. UB Finance along with the staff came forward with rations and donations to assist the people affected in the areas of, Aranayaka, Samassara, Kelaniya and Salawa.

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's best practices. The Company considers compliance with the regulatory requirements and guidelines as core to its business and good governance.

Marketing

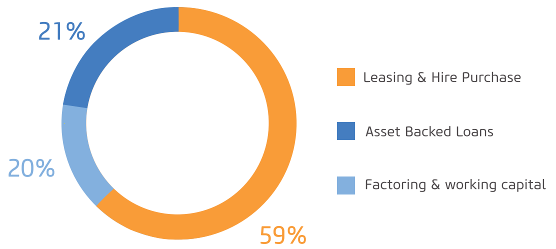
UB Finance continued to hold many promotions and engage in numerous other marketing activities during the year to further build its brand and reinforce its distinctive brand value. Cost effective below- the- line measures were used to showcase the brand and drive it forward, while Above – the - line measures were blended into this brand building process, through selected initiatives in the print and electronic media. 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 UBF customer acquisition plans in an intensely competitive environment. During the year, a segment focused advertising campaign was introduced to promote Easy Draft and the launch of the new "Flex-it" product. Efforts also continued to increase market penetration through cross-selling opportunities of the growing product range to existing customers. UBF also engaged in events, brand tie-ups and sponsorships with other reputed corporates to strategically support the operations in the branches during the year.

Effective door to door campaigns and town storming were conducted and maximum visibility for the brand was initiated through hoardings, banners, leaflets and signboards. UBF also introduced a special promotional campaign in partnership with reputed vehicle dealers to attract new customers aiding the organization to promote its leasing product. Several initiatives were also carried out across the country to enhance UBF's value proposition to the small and medium enterprise customers which is a key segments for the business. The company also introduced a number of key activities to acknowledge and appreciate the support of its loyal customers during the year which included personalised events and complementary give aways.

A cohesive Public Relations Strategy was also mooted to strengthen the organisation's

Rs 3,492Mn in the last year. Our leasing customers increased by 29.7% as we continued to offer competitive rates and a quick and speedy service.

Composition of Portfolio Income



image, perception and status, promoting it as a leader in the preferred sector. Further, with the increasing use of digital platforms for marketing and promotional activities, the Company's marketing strategies also focused on venturing into establishing a digital presence and harnessing the opportunities offered in the digital and social media space.

Leasing

At UB Finance, our reputation is largely built on lease finance and in the year under review due to the restriction in the Loan to Value (LTV) ratio for credit facilities for motor vehicles and changes in import duties, there was a significant impact on the leasing business. Although this created a challenging environment, we continued our focus to sustain and improve credit quality. We also adjusted our service offerings to adapt to the changing situation to enable the organization to maintain a growth in leasing.

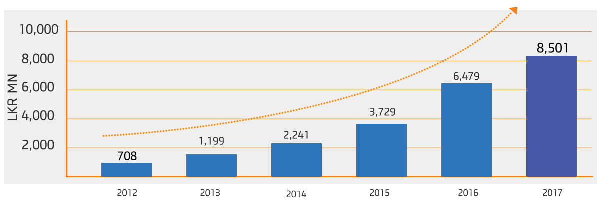
Our leasing portfolio performed well and grew by 42.3.% to Rs 4,970 Mn as opposed to

UBF offers leasing facilities across a wide spectrum of consumers with special emphasis on SME segment. However, as a result of the impact created by LTV on the SME business, UBF redirected their efforts to promote leasing to the middle and upper middle consumer segments. This is aptly supported by our strong regional presence and our ability to offer tailor made facilities that support changing lifestyles. We increased our concentration in the market for registered vehicles due to the revision of the import duty structures on new and unregistered vehicles. Salient efforts to build strategic alliances with vendors and dealers continued to play a key role in the leasing business. For the team, we invested in training and development activities to enhance their professional skill levels and knowledge of the leasing credit procedures.

Credit Customer Growth

37%

Total Net Lending Portfolio

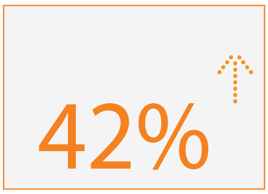


Factoring

We continued to sustain and grow our factoring business throughout the year. The opening of a dedicated state-of-the art Premier Factoring Service Centre in Colombo during 2015 helped us to further deliver on our promise to provide innovative, tailor made working capital solutions that meet specific business requirements. We also engaged in a focused marketing drive to create awareness about the company products. Our portfolio includes invoice and cheque discounting facilities, special loans and asset backed working capital loans that helps customer obtain funding against business assets.

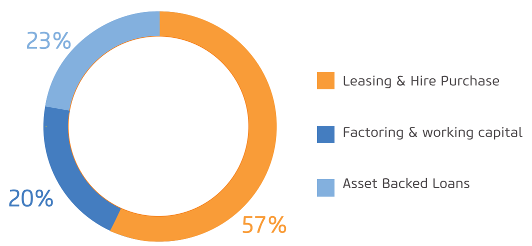
Due to the sluggish economic activity and the challenging environment that prevailed during the year, a special campaign was initiated for ‘Easy Draft’ to help businesses over this time by offering working capital solutions to fulfill the short term financing requirements of small and medium enterprises. The organization also embarked on an expansion drive of the factoring team to support the development of business. With processes and systems in place we were able to structure our team more efficiently so that our customers receive the best service at all times. We also ensured our team was well trained and conversant in our factoring business. Our growing branch network also helped strengthen our factoring portfolio across the country resulting in a 42% increase in our client base.

Factoring Customer Growth

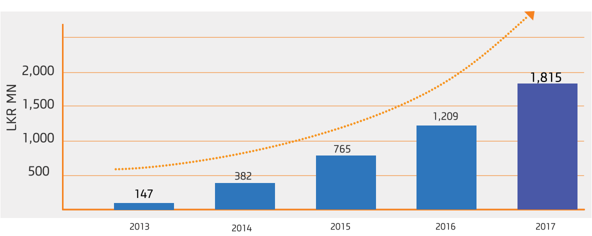


During the year under review the revenue generated through factoring increased by 58.5% and our factoring portfolio grew by 50%. Factoring contributes 20% to the portfolio income of UBF.

Lending Portfolio Composition



Factoring Portfolio



Credit Operations

During the year the credit operations department continued to be responsible for facilitating of an efficient disbursement process while maintaining its well-established credit policies, processes and procedures as a measure to curb credit risk.

We also implemented new processes that would aid us to positively improve CRIB reporting standard to achieve better ratings. We continued to strengthen our credit operations and redefine procedures to increase speed of service. This helped us to minimize the turnaround time for approvals and reduce the paperwork in the process. A high quality scientific customer grading & rating system was also introduced to help maintain a good credit portfolio and support the acquisition of valuable credit business. We made sure our team was well geared to deliver optimum results and reach their full potential. We conducted training programmes that would help us curtail our exposure to unnecessary risks and methods to arrest possible losses. Technological solutions were also implemented to drive process efficiency and to ease some of the functions in monitoring and control. Credit processes were also updated in a timely manner to meet the requirements of the market and aligned to the market trends.

Deposits

Deposits are one of our main source of funding at UB Finance. Amidst the challenges in the industry during the year in review, UBF successfully maintained a healthy deposit base growth of 43.1% to Rs. 6,063Mn. A considerable contribution to the growth in the deposit base came from referrals from our existing customers reflecting the confidence placed by our target market who find UBF to be a trusted and secured investment option.

UBF conducted island wide marketing initiatives to promote the organisation’s suite of products. During the year UBF also introduced "Flex-it'' which offers maximum returns on flexible tenors. We also continued our commitment in delivering a superlative customized service which constitute speed of delivery combined with safe and secure investments prospects.

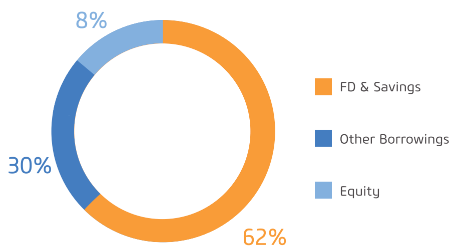
Marketing activities were also conducted to promote other deposit products which include Monthly Fixed Deposits, Maturity Fixed Deposits, Upfront Fixed Deposits (Save'n'Shop), and Savings Accounts. This included general advertising, town storming campaigns, ATL and BTL activities that were targeted to reach niche target market segments.

Fixed Deposit Base Growth

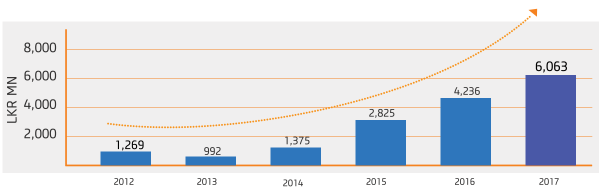
43%

We also streamlined deposit operations to meet the growing demands. Backed by the strength of its Parent Company, Union Bank, UBF has successfully been able to maintain the stability of a bank and flexibility of a Finance Company, in order to meet our customer's financial needs in a more safe and secure manner.

Funding Mix



Fixed Deposit & Saving Base Growth



Recoveries

Whilst focusing on increasing our business volumes, UB Finance seeks to uphold the quality of its portfolio through continuous and improved efforts in recoveries. The recoveries function at UB Finance has been at the forefront of achieving sustainable long term growth. We have instilled effective recovery strategies and stringent monitoring processes to maintain sound collection ratios, curtail bad debts and ensure timely repayments. We continued to strengthen our processes and procedures to effectively manage the repossession and disposal of repossessed assets.

We continue to successfully curtail the number of defaulters with the help of an effective focused recovery drive by the recovery department under the close monitoring of corporate management. The organization has also expedited and simplified the recovery process through greater collaboration with the regional and branch levels to maintain a strong recoveries operation that has been successful in maintaining effective control on the organisation's NPA. New staff were recruited at branch level to ensure close monitoring and follow up. Although the market continued to face many challenges, UBF was able to maize recoveries by maintaining a healthy portfolio during the year.

Legal

The legal division at UB Finance plays a vital and important role in providing the necessary support and assistance to the organization. Our well-established legal unit supervises all legal issues, initiates legal action against default customers of the companies and defends cases filed against the company. In-house legal team also helps to speed up credit approvals with minimum risks by analysing and making recommendations on title of the properties offered for security. The legal department also closely coordinates with the recoveries unit to maintain the credit quality by adopting stringent measures to minimize the propensity of defaults as well as curtailing the non-performing ratio. The legal department ensures processes and procedures are in place so that the organization's statutory responsibilities can be met.

Information Technology

At UB Finance Information Technology (IT) is a core function that helps drive the business forward. It plays an integral role in providing an effective platform that supports operations and helps to align the corporate strategy and plans. The organization has in place a comprehensive IT framework which has been integrated into most of the organisation's business activities to deliver greater customer satisfaction, service standards and efficiencies.

During the year under review, UB Finance continued to strengthen its security features through its IT platform to ensure that high standards are maintained. A well-defined IT Security Policy is also in place which guarantees that all critical systems are validated and tested before implementation. This helped to enhance and maintain information, security controls and systems while safeguarding the confidentiality of the information.

During the year there was also a conscious effect to re-strengthen our business continuity (BCP) and disaster recovery (DRP) plans that provides for a reliable and secure back-up system which would in any eventuality kick in and enable the organization to perform at optimum levels. We continue to invest well in our systems and processes and to add value to our products and services. UB Finance's IT developments are designed not only to improve operations, services and products but also to maximize productivity and decision making through the efficient use of data analytics.

During the upcoming year we plan to adopt a state-of-the-art ERP system that will provide a solid foundation for us to further improve our customer service levels and launch differentiated financial solutions. This introduction will enables UBF to enhance the digital banking experience to customers by delivering online facilities such as internet banking, mobile banking and the future launch of ATM services.

Looking ahead, technology will continue to implement several sophisticated systems to support the business unit's strategic plans. We also plan to initiate a data center with advanced technologies that are aligned to international standards.

Compliance

Compliance is an importance aspect for UB Finance and we conduct our operations in compliance with all applicable laws, regulations and standards. We maintain a stringent culture of compliance where governance, principles, ethics, accountability, integrity and transparency remain in absolute focus. We continually strive to enhance relationships with relevant regulatory institutions. The organization also ensures continuous compliance and alignment with industry standards.

As in the past UBF has complied with statutory and regulatory requirements and such compliance is closely monitored by the Board of Directors.

Human Resources

Employees are the most valuable resource of our company and during the year under review, UBF continued to maintain its human resources at the highest level by implementing effective human resource policies that ensure efficiency and productivity whilst maintaining a positive work life balance.

Following the growing scale of operations, numbers of personnel from various disciplines were added on to the permanent workforce, resulting in UBF's workforce reaching a total strength of 249.

Standing firm on the principle of 'equal opportunity', UBF maintained its stance on recruiting versatile employees, adding value to a multi-disciplinary workforce. The recruitment process remained competitive and structured, where precedence was given to internal recruitment as deemed suitable but also encouraged applications from the best outside talent.

We continued to invest in development and training of employees taking into consideration the organisations business needs and long term goals, staff performance evaluations and succession plans. During the last year a total of 6,471 training hours were implemented across the multiple categories. We also placed great emphasis on training to help improve technical skills of employees through on the job training. For new employees we have also developed a comprehensive induction programme to provide the tools and knowledge needed.

Number of Training Hours

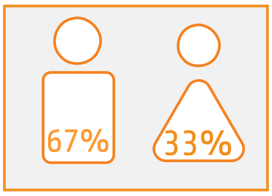
Period	No. of Hours
2013/2014	2077
2014/2015	4278
2015/2016	6455
2016/2017	6471

UBF engages in a strong performance based culture. We continued to offer rewards and recognition based on performance. This helps us to promote decisiveness and standards of excellence and ensures direct accountability. We empower our team to be innovative and creative. Our ultimate goal is to ensure that our team lives and works united, forming a strong culture of camaraderie that would naturally progress to a healthy work life balance. The Company also places highest value on ethics.

The skills and experience of our people have been a major contributing factor towards the Company's unrivalled successes over the years.

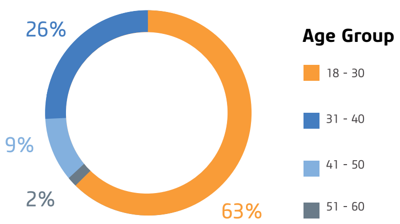
Therefore we encourage staff to be promoted from within the organization to fill vacancies. This affords the UBF team great opportunities for career advancement.

Gender Composition



At UB Finance, we encourage initiatives to increase employee engagements that promote open dialogue and activities that enhance team building and unity. Recreational activities organized by the Company's sports club strongly help the company to promote the latter through events and programmes for the staff members.

Staff Age Analysis



The UBF HR department in cordination with UBF sports Club organized its annual UBF night which was held in November 2016 at Global Towers with an overwhelming participation of the members of UBF team. As in the past, the UBF Night was an event to remember packed with fun and entertainment. Furthermore, on this occasion awards were presented to the most outstanding members of the UBF team for their outstanding performance towards the business during that year.

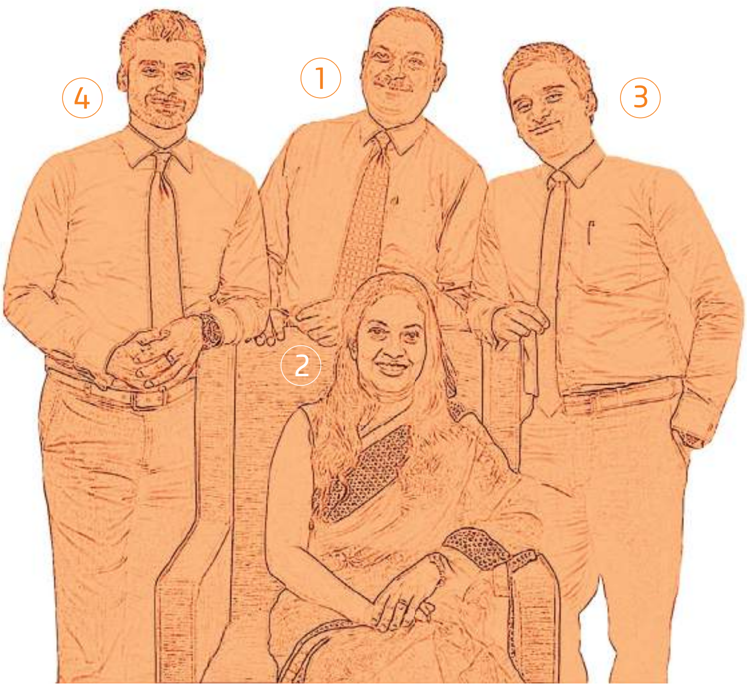
Best Branch of the Year
Ambalangoda

Best Marketing Staff - Credit
Manoj Rathnayake

UBF Night 2016
Award Winners

Corporate Managment

"A well-orchestrated management team is the foundation that drives organizational success"



1. Ruwan Fernando
   - Head of Administration
2. Himali Perera
   - Head of Factoring
3. Asanka Udugama
   - Head of Finance
4. Amila Nilaweera
   - Chief Manager Credit

Divisional Heads

Lesly Lekamge
Senior Manager - Real Estate

Samanthi Senevirathna
Senior Manager - Fixed Deposits

Pradeep Roshantha
Senior Manager - Leasing

Piyal Weerakoon
Senior Manager - Legal

Nimali Ranaweerra
Manager - Human Resources

"A dynamic team of divisional heads will steer the organization to reach its ambitious business objectives"

Chinthaka Gamage
Senior Manager - Marketing Communication

Dilini Paiva
Senior Manager - Executive PA

Chaminda Weerasinghe
Senior Manager - Recoveries

Vilashani Bandara
Senior Manager - Finance Reporting

Dushanthi Silva
Manager - Risk & Compliance

Branch Managers & Officers in Charge

Indika Bandara
Senior Branch Manager - Kurunegala

Supun Gunathilaka
Manager - Galle

Sugath Kumara
Manager - Polonnaruwa

Deshal Weerage
Manager - Negombo

Nalaka Nanayakkara
Manager - Kadawatha

Puraka Dissanayake
Manager - Rathnapura

Surangika Samaranayaka
Officer in Charge - Kandy

Lasantha Piyaweera
Officer in Charge - Nuwara Eliya

> "A focused team of branch managers helps to build sustainable long term value that strengthens the organisation's business proposition"

Dishan Fernando
Manager - Panadura

Ravi Jayanada
Manager - Mawanella

Kavinda Tennakoon
Manager - Head office Branch

Udara Abewickrama
Manager - Ambalangoda

Vijendra Sachin
Officer in Charge - Kalmunai

Sumesh Baduge
Officer in Charge - Tissamaharama

Hashan Migara
Officer in Charge - Gampaha

Arosha Perera
Officer in Charge - Matara

> "Do the difficult things while they are easy and do the great things while they are small. A journey of a thousand miles must begin with a single step."

Birth of UB Finance

- Capital Infusion by Union Bank & Shore Cap II (USA)
- Identification of Vision & Mission
- Launch of Factoring Products

2012/13

Planning & Execution

- New Plush Head Office
- Core System implementation
- Formulation of Policies & Procedures

2013/14

Growth

- 8 New branches since inception
- Introduction of New Products (Easy Draft & Save Shop)
- Major Brand awareness Drive

2014/15

Expansion

- Further 04 new outstation branches
- Dedicated factoring office
- ICRA Rating (BB stable)
- SME sector drive

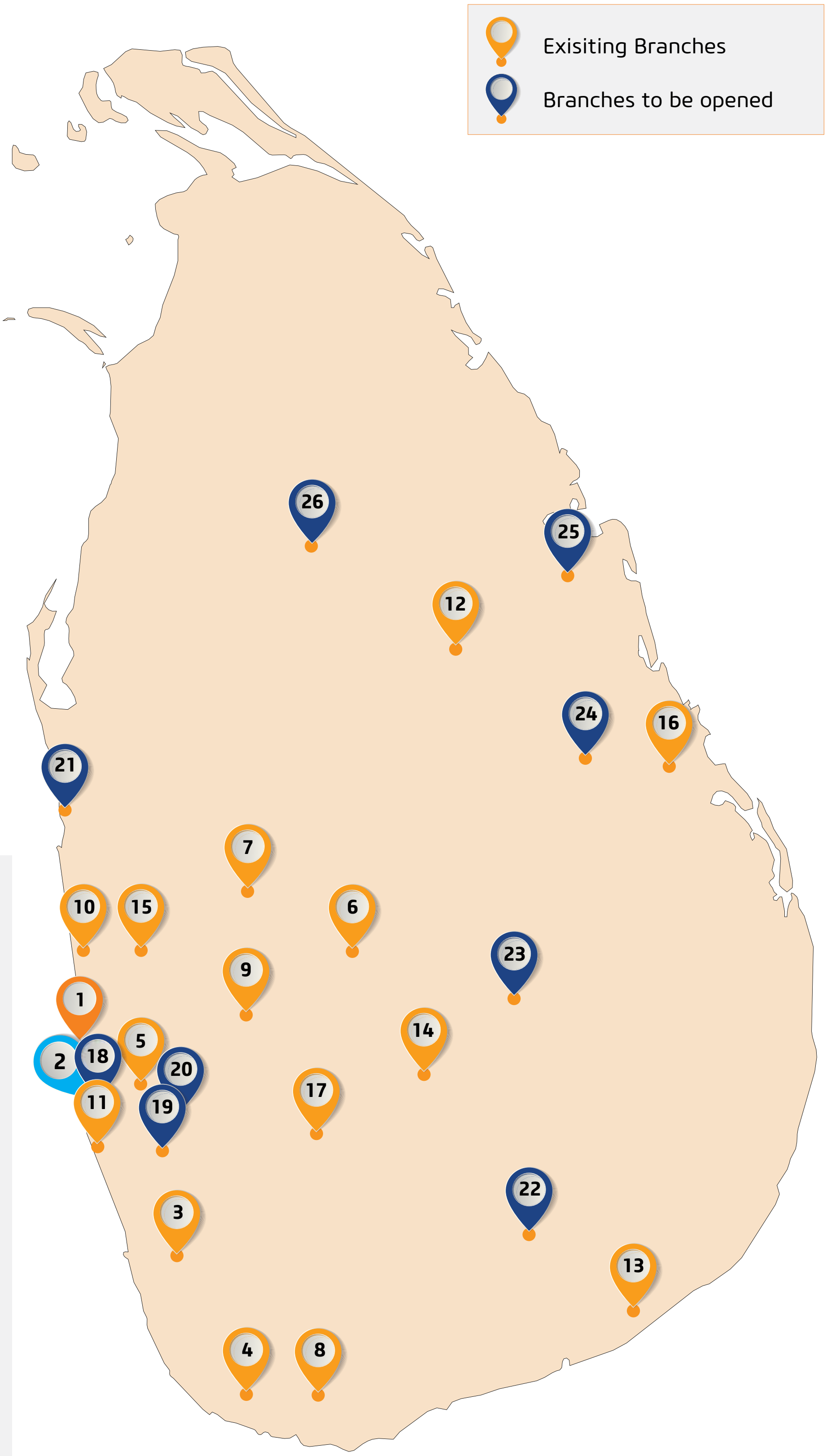
2015/16

Stability

- Rs. **10 Bn** Total Assets
- Rs. **06 Bn** Fixed Deposits
- Launch of "Flexit"
- Strong Channel Development

2016/17

Branch Network Expansion



1. Head Office - Colombo
2. Factoring Premier Office
3. Ambalangoda
4. Galle
5. Kadawatha
6. Kandy
7. Kurunegala
8. Matara
9. Mawanella
10. Negambo
11. Panadura
12. Polonnaruwa
13. Tissamaharama
14. Nuwaraeliya
15. Gampaha
16. Kalmunei
17. Rathnapura
18. Nugegoda
19. Horana
20. Kaduwela
21. Chilaw
22. Monaragala
23. Mahiyanganaya
24. Batticaloa
25. Trincomalee
26. Anuradhapura

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 2017 in compliance with Companies Act No. 07 of 2007. This report was approved by the Board of Directors on 28th June 2017.

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 purchase, 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 52 to 56.

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 29th September 2016. The report of the Auditors on the Financial Statements of the Company is given on page 51.

Accounting Policies

The Financial Statements made as per revised Sri Lanka Accounting Standards comprising of 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 57 to 98 of this Annual Report.

Branch Network

As at 31st March 2017, the Company has 16 branches including the Head Office and one service centre.

Financial Reporting & Responsibility for the Accounts

The Directors are satisfied that the financial statements presented on pages 52 to 98 give a true and fair view of the state of affairs of the Company as at 31st March 2017 and the Profit and Loss for the year ended 31st March 2017.

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 96 of this Annual Report.

Shareholder Register

As at 31st March 2017, 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 2017, 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 2017;

Name of the Director	Position	Alternate Director	Date of Appointment
Mr. Alexis Indrajit Lovell, MBE	Chairman		01/11/2011
Mr. Ananda Wijetilaka Atukorala	Senior Director		11/07/2012
Mr. Davis Frederick Golding	Director	Rienzie Anthony Fernando Cessation w.e.f 06/09/2016	01/11/2011
Mr. Malinda Namal Samaratunga	Director		01/11/2011
Mr. Kenneth Kusinath Upali Wijeyesekera	Director		01/11/2011
Mr. Chandrakumar Ramachandra	Director		12/03/2014
Mr. Indrajit Asela Wickramasinghe	Director		31/12/2014
Mr. Ranvir Dewan	Director		02/11/2015
Mr. Ransith Nishantha Karunaratne	Director		12/03/2014

Mr. Alexis Lovell, MBE Chairman of the Company is an Independent Non-Executive Director. Mr. Ananda Atukorala functions as the Senior Director to the Board. Other Non Independent Non-Executive Directors are Mr. Davis Golding, Mr. Malinda Samaratunga, 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 2017;

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	23,974,505
Mr. Ananda Wijetilaka Atukorala	10,010	None	None
Mr. Davis Frederick Golding	None	None	None
Mr. Malinda Namal Samaratunga	None	None	200
Mr. Kenneth Kusinath Upali Wijeyesekera	None	690,770	None
Mr. Chandrakumar Ramachandra	None	None	None
Mr. Indrajit Asela Wickramasinghe	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 2017

Name of the Director	No. of Directorates / equivalent positions held in companies / societies / corporate bodies as at 31.03.2017
Mr. Alexis Indrajit Lovell, MBE	**Chairman** 01. National Asset Management Limited 02. Thinkcube Ltd **Director** 01. Real Investment Holdings Pte Ltd 02. AEC Ltd **Principal** 01. JI Capital Limited
Mr. Ananda Wijetilaka Atukorala	**Chairman** 01. NDB PLC 02. Development Holdings (Pvt) Ltd 03. NDB Securities (Pvt) Ltd **Independent Non-Executive Director** 01. United Motors Lanka PLC 02. Unimo Enterprises Limited 03. TVS Lanka Ltd 04. Orient Finance PLC (formerly Bartleet Finance PLC) 05. Unawatuna Boutique Resort (Pvt) Ltd 06. Colombo City Holdings PLC **Non-Executive Director** 01. Pragnya Tech Parks Lanka (Private) Limited (resigend wef 01/02/2017) 02. Arni Holdings & Investments (Pvt) Ltd
Mr. Davis Frederick Golding	**Director** 01. Satin Creditcare Network Ltd, India 02. Equator Capital Partners, LLC, USA
Mr. Kenneth Kusinath Upali Wijeyesekera	**Director** 01. Property Development PLC
Mr. Malinda Namal Samaratunga	**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. Ransith Nishantha Karunaratne	**Non-Executive Director/Treasurer** 01. Lanka Evangelical Alliance Development Service
Mr. Indrajit Asela Wickramasinghe	**Director / Chief Executive Officer** 01. Union Bank of Colombo PLC **Director** 01. Namal Asset Management Limited
Mr. Ranvir Dewan	**Director** 01. Union Bank of Colombo PLC 02. Shriram City Union Finance Limited

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 96.

Post Balance Sheet Events

There were no post balance sheet events, except for the disclosures made under note 33.

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 2017 are as follows ;

Audit Committee

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

Integrated Risk Management Committee

- Mr. Ananda Wijetilaka Atukorala (Chairman)
- Mr. Davis Frederick Golding or his alternate
- Mr. Indrajit Asela Wickremasinghe
- 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 Wickremasinghe
- Mr. Malinda Namal Samaratunga

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

Related Party Transactions Review Committee

- Mr. Ananda Wijetilaka Atukorala (Chairman)
- Mr. Kenneth Kusinath Upali Wijeyesekera
- Mr. Chandrakumar Ramachandra

Number of Meetings Held and Attendance

Names of the Director	Board Meetings		Audit Committee		Integrated Risk Management Committee		Human Resources & Remuneration Committee		Strategic Committee		Credit Committee	
	E	A	E	A	E	A	E	A	E	A	E	A
Mr. Alexis Indrajit Lovell, MBE	12	11	-	-	-	-	3	3	3	3	5	4
Mr. Ananda Wijetilaka Atukorala	12	12	6	3	4	4	3	3	3	3	5	5
Mr. Davis Frederick Golding or his alternate	12	8	6	4	4	1	3	2	3	3	5	1
Mr. Kenneth Kusinath Upali Wijeyesekera	12	11	-	-	-	-	3	1	-	-	5	5
Mr. Indrajit Asela Wickramasinghe	12	10	-	-	4	4	-	-	3	2	-	-
Mr. Malinda Namal Samaratunga	12	8	6	4	-	-	-	-	3	2	-	-
Mr. Chandrakumar Ramachandra	12	11	6	6	4	4	-	-	-	-	5	5
Mr. Ranvir Dewan	12	8	4	3	-	-	-	-	-	-	-	-
Mr. Ransith Nishantha Karunaratne	12	12	-	-	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

CORPORATE GOVERNANCE

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 2017/18, to 2019/20 is in place which is named as the "The Strategic Intent". This plan outlines the corporate values and medium term objectives of the company. 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 at 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. Further the company will take necessary measures to 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 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 Head of Finance, 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 of 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.
	(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 twelve 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.
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 2016/17.

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. 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 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 improve 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 2016/17.
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.

CORPORATE GOVERNANCE

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 2017 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 and disclose in its Annual Report.
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 Reports of such committees are submitted to the Board for review and approval.

Section	Principle	Degree of Compliance
8.02	**Audit committee**	
	The following shall apply in relation to the Audit Committee:	
A	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	The 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 the 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 is 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.

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 judgemental areas, changes in accounting policies, significant audit recommendations 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 Executive 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 has reviewed the external auditor's management letter for the year 2015/16 and management responses thereto.
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	The Committee has reviewed the adequacy of scope of internal audit function and the internal audit program for the year ended 2016/17. 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 reporting 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 also 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.

CORPORATE GOVERNANCE

Section	Principle	Degree of Compliance
Q	Whistleblower 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 and Head of 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 Company appointed an independent Compliance officer with effect from 01st March 2017. The Compliance function will have to be further strengthened by the Compliance Officer assessing the compliance guideline with internal controls and 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 favourable 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 2016/17 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 b) A report by the Board on the Finance Company's internal control mechanism c) The external auditor's certification on the effectiveness of the internal control mechanism	a) Disclosed in the "Annual Report of the Board of Directors on the State of Affairs of the Company". b) Disclosed in the "Directors Statement on Internal Controls over Financial Reporting". c) The Board has obtained a certification from External Auditors on the effectiveness of the internal controls over financial reporting.

CORPORATE GOVERNANCE

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. 35 of the 2016/17 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. 35 of the 2016/17 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 significant 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.

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
Mr. Ranvir Dewan
Non-Executive Director

Brief profiles of the Committee members are given in pages 14 to 16

The Chief Executive Officer, Chief Operating Officer, Head of 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 36 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 accordance 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.

Terms of Reference

The charter of the Committee, which is subject to review and revision periodically by the Board of Directors, clearly defines the Terms of Reference of the Committee.

Key responsibilities of the BAC

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 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. Meetings with the group auditor were held twice during the engagement. 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.

Whistle Blowing Policy

The whistle blowing policy serves as a communication channel to address genuine concerns that the staff may have in relation to activities which they feel are wrongful or illegal or otherwise harmful to the interests of the Company, its employees, customers and all other stakeholders. The Committee continuously emphasises on sustaining ethical values of the Company and in this regard, a Code of Ethics and Whistle Blowing policy is in place. All staff have been made aware of the existence of such a policy and encouraged to whistle blow if they suspect any wrong doing. All necessary procedures and techniques are in place to conduct independent and impartial investigations into incidents reported through whistle-blowing or identified through other channels. The whistle-blowing policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers. The policy is subject to annual review in order to further improve its effectiveness.

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 Board appointed Integrated Risk Management Committee comprised of 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

The Company secretary functions as the secretary to the Board Integrated Risk Management Committee.

Terms of Reference

The Board 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.

Committee Meetings

During the year under review the committee held four meetings on a quarterly basis. Attendance of the committee meetings is given on page 36.

The Committee is mainly responsible for the following, namely

- To Identify ,assess and manage key risk categories i;e Credit ,market, operational and strategic risks through risk indicators
- To Review the adequacy and effectiveness of all management level Committees 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 Manger risk and compliance. The risks were then reviewed and assessed monthly by the Manger risk and compliance 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.

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 2016/17 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

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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 2017, 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 52 to 98.

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 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

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

28 June 2017
Colombo

UB FINANCE COMPANY LIMITED

INCOME STATEMENT

Year ended 31 March 2017

	Notes	2017 Rs.	2016 Rs.
Income	4	**1,578,536,968**	**1,055,148,326**
Interest Income	4.1	1,403,157,114	905,968,184
Interest Expenses	4.2	(925,528,236)	(528,884,607)
Net Interest Income		**477,628,878**	**377,083,577**
Fee and Commission Income	4.3	90,596,133	67,016,024
Fee and Commission Expenses	4.3	(29,854,046)	(17,913,440)
Net Fee and Commission Income		**60,742,087**	**49,102,584**
Other Operating Income (Net)	5	84,783,721	82,164,119
Total Operating Income		**623,154,686**	**508,350,280**
Impairment Charge for Loans and Receivables and Other Assets	6	(90,632,002)	(63,486,908)
Net Operating Income		**532,522,684**	**444,863,372**
Staff Costs	7	(151,293,776)	(143,209,115)
Depreciation of Property, Plant and Equipment	16.1	(21,982,466)	(17,367,706)
Amortisation of Intangible Assets	18	(1,424,422)	(1,483,040)
Other Expenses	8	(231,466,276)	(179,202,429)
Operating Profit before Value Added Tax (VAT) and NBT		**126,355,744**	**103,601,081**
Value Added Tax (VAT) and NBT on Financial Services		(32,952,620)	(26,057,422)
Profit before Taxation		**93,403,124**	**77,543,659**
Tax Expense	9	(25,842,472)	669,086
Profit for the Year		**67,560,652**	**78,212,745**
Earnings Per Share	10	0.04	0.05

The Accounting Policies and Notes on pages 57 through 98 form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 March 2017

	Notes	2017 Rs.	2016 Rs.
Profit for the Year		67,560,652	78,212,745
Other Comprehensive Income to be reclassified to Income Statement			
Losses on re-measuring Available-for-Sale Financial Assets	29	149,279	(1,836,121)
Impairment adjustment for Available-for-Sale Investment	29	-	2,983,458
Other Comprehensive Income not to be reclassified to Income Statement			
Gain on revaluation of land and buildings	16	23,084,832	23,019,188
Deferred Tax (Charge) / Reversal impact on above	20	-	(6,445,373)
Actuarial gains / (losses) on Post Employment Liability	25.1	414,304	1,330,221
Deferred Tax (Charge) / Reversal impact on above	20	(116,005)	(372,462)
Other Comprehensive Income for the Year, net of taxes		23,532,410	18,678,911
Total Comprehensive Income for the Year		**91,093,062**	**96,891,656**

The Accounting Policies and Notes on pages 57 through 98 form an integral part of these financial statements.

UB FINANCE COMPANY LIMITED

STATEMENT OF THE FINANCIAL POSITION

As at 31 March 2017

	Notes	2017 Rs.	2016 Rs.
Assets			
Cash in Hand and Balances with Banks	11	515,949,911	582,630,533
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements	13	444,432,380	483,160,804
Sri Lanka Government Securities - Available for Sale	12	8,423,661	8,222,970
Loans and Receivables from Customers	14	8,501,728,542	6,479,519,889
Financial Investments – Available for Sale	15	1,152,765	1,729,773
Investments in Real Estate	17	152,315,852	213,390,328
Other non Financial Assets	19	59,087,692	85,615,018
Intangible Assets	18	8,987,910	10,412,332
Property, Plant and Equipment	16	204,192,159	158,875,727
Deferred Tax Assets	20	199,347,229	199,347,229
Total Assets		**10,095,618,101**	**8,222,904,603**
Liabilities			
Due to Banks	22	911,348,844	766,506,938
Due to other Customers	21	6,063,491,070	4,236,116,264
Other Borrowed Funds	23	1,966,071,424	2,148,565,111
Current Tax Liabilities		8,798,155	1,234,979
Other Financial Liabilities	24.1	75,211,226	126,771,565
Other Non Financial Liabilities	24.2	239,895,330	205,921,805
Post Employment Liability	25	14,757,279	12,836,230
Total Liabilities		**9,279,573,328**	**7,497,952,892**
Equity			
Stated Capital	26	2,851,987,469	2,851,987,469
Statutory Reserve Fund	27	48,451,361	45,073,328
Available-for-Sale-Reserve	29	(277,915)	(427,194)
Revaluation Reserves		39,658,647	16,573,815
Accumulated Loss	28	(2,123,774,789)	(2,188,255,707)
Total Shareholders' Equity		**816,044,773**	**724,951,711**
Total Equity and Liabilities		**10,095,618,101**	**8,222,904,603**

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

Asanka Udugama
Head Of 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

The Accounting Policies and Notes on pages 57 through 98 form an integral part of these financial statements.

28 June 2017
Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2017

	Note	Stated Capital Rs.	Statutory Reserve Fund Rs.	Available-for-Sale Reserve Rs.	Revaluation Reserves Rs.	Accumulated Loss Rs.	Total Rs.
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
Transfers during the year		-	-	-	-	-	-
Profit for the year		-	-	-	-	78,212,745	78,212,745
Transfer to the Statutory Reserve	27.1	-	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**
Balance as at 01 April 2016		**2,851,987,469**	**45,073,328**	**(427,194)**	**16,573,815**	**(2,188,255,707)**	**724,951,711**
Other Comprehensive Income		-	-	149,279	23,084,832	298,299	23,532,410
Profit for the year		-	-	-	-	67,560,652	67,560,652
Transfer to Statutory Reserve	27.1	-	3,378,033	-	-	(3,378,033)	-
Balance as at 31 March 2017		**2,851,987,469**	**48,451,361**	**(277,915)**	**39,658,647**	**(2,123,774,789)**	**816,044,773**

The Accounting Policies and Notes on pages 57 through 98 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 March 2017

	Notes	2017 Rs.	2016 Rs.
Cash Flow from Operating Activities			
Interest Received	4.1	1,296,354,424	905,968,184
Fees and Commission Receipts		90,596,133	67,016,024
Interest Paid	4.2	(840,140,034)	(528,884,607)
Fees and Commission Paid		(29,854,046)	(17,913,440)
Payments on other Operating Activities		(289,634,911)	(134,918,915)
Operating Profit / (Loss) before changes in Operating Assets and Liabilities		**227,321,566**	**291,267,246**
(Increase) / Decrease in Operating Assets:			
Funds Advanced to Customers	14	(2,024,599,967)	(2,815,575,135)
Others		30,706,137	(38,683,131)
Increase in Operating Liabilities:			
Due to Banks and Other Customers	21	1,741,986,604	1,410,470,312
Net Cash used in Operating Activities before Income Tax		(24,585,659)	(1,152,520,708)
Retiring Gratuity paid	25	(317,178)	(287,260)
Income Tax Paid		(16,704,751)	(8,697,030)
Net Cash used in Operating Activities		**(41,607,588)**	**(1,161,504,998)**
Cash Flow from Investing Activities			
Dividends Received	5	5,265	4,860
Purchase of Property, Plant and Equipment	16	(31,235,794)	(46,197,742)
Purchase of Intangible Assets	18	-	(1,113,057)
Proceeds from Sale of Property Plant and Equipment		4,300,000	7,914,415
Profits from Sale of Quoted Equity Securities	15	780,854	-
Receipt in Unit Trusts	15	-	21,209,526
Net Cash used in Investing Activities		**(26,149,675)**	**(18,181,997)**
Cash Flow from Financing Activities			
Increase in Borrowings	21	(182,493,686)	981,057,810
Net Cash Generated from Financing Activities		**(182,493,686)**	**981,057,810**
Net (Decrease) / Increase in Cash and Cash Equivalents		(250,250,950)	(198,629,184)
Cash and Cash Equivalents at Beginning of the Year		299,284,398	497,913,582
Cash and Cash Equivalents at End of the Year		**49,033,448**	**299,284,398**
Reconciliation of Cash and Cash Equivalents			
Cash in Hand	11	610,000	580,750
Balances with Banks (Net of Overdraft)		(396,008,932)	(184,457,156)
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements - Available for Sale	13	444,432,380	483,160,804
		49,033,448	**299,284,398**

The Accounting Policies and Notes on pages 57 through 98 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

1. REPORTING ENTITY

1.1 General

UB Finance Company Limited is a Limited Liability 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 is 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 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 31 March 2017 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 31 March 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 28 June 2017.

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 recognized 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 32.14.3.

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.

2.6 Materiality and Aggregation (Contd.)

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.

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 accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognized 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 utilization, 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 initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made. The taxation is disclosed in more detail in Note 09.

2.8.6 Deferred Tax Assets

Deferred tax assets are recognized 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 utilized.

2.8.6 Deferred Tax Assets (Contd.)

Judgement is required to determine the amount of deferred tax assets that can be recognized, 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 recognized in the Statement of Financial Position but are disclosed unless they are remote. Refer Note 30 for more details on Commitments and Contingencies.

2.8.10 Revaluation of Property Plant and Equipment

The Company usually engages an external independent and qualified valuer once in three 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 and as advised by the valuer.

Changes in fair value being recognized in other comprehensive income. The Company engaged an individual valuation specialist to assess fair value as at 31st March 2017 for 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

The Company initially recognizes loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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 that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement' Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of 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 of the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognizes 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 recognized in the profit or loss when the inputs become observable, or when the instrument is derecognized. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortized using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

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
II. Held to maturity financial assets
III. Loans and receivables
IV. Financial assets available-for-sale

The subsequent measurement of financial assets depends on their classification.

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 as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognized in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of profit or loss

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as available-for-sale.

II. Held to Maturity (HTM) financial investments

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortization is included in interest income in the Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment are recognized as impairment cost in the Statement of Profit or Loss and Other Comprehensive Income.

III. Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, hire purchase receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

- ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

- ***Finance leases and hire purchase***

When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

- ***Advances and other loans to customers***

Advances and other loans to customers comprised of revolving loans and loans with fixed instalment.

Loans to customers are reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for impairment losses.

IV. Financial investments Available For Sale (AFS)

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

3.1.5 Classification and Subsequent Measurement of Financial Liabilities

The Company initially recognizes non-derivative financial liabilities on the date that they are originated.

The Company classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals & other payables and amounts due to related parties:

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 there in recognized in profit or loss.

- ***Bank overdrafts***

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

- ***Deposits and bank borrowings - classified as other financial liabilities carried at amortized cost***

Deposits and bank borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortized cost using the effective interest method.

3.1.6 Reclassification of Financial Instruments

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 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category.

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

Reclassification is at the election of the Management and is determined on an instrument-by-instrument basis.

The company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, 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.

No reclassifications of financial instruments were done during the year.

3.2 Derecognition of Financial Assets and Financial Liabilities

Financial Assets

The Company derecognizes a financial asset when the rights to receive cash flows from the asset have expired or 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.

(a) The Company has transferred substantially all the risks and rewards of the asset, or

(b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed)
and
(ii) Any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Financial Liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

3.3 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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

3.4 Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

3.5 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(i) Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

3.6 Impairment of Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

(i) Impairment of Financial Assets carried at Amortised Cost

For financial assets carried at amortized cost (such as amounts due from Company's, 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, recognized 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 recognized 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 mitigates) 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.

(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.

3.7 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

Finance leases – Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance cost in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance leases – Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognized in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

(b) Operating Lease

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases.

Operating leases – Company as a lessee

Operating lease payments are recognized as an expense in the statement of profit or loss on a straight line basis over the lease term. Contingent rent payable is recognized as an expense in the period in which they are incurred.

Operating leases – Company as a lessor

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Contingent rents are recognized as revenue in the period in which they are earned.

3.8 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 realizable 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.

3.9 Property, Plant and Equipment

Recognition and Measurement

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

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

Cost includes expenditure that is 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 asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site at 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 and equipment have different useful lives, they are accounted for as separate items 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, plant and equipment, and is recognized in other income/other expenses 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 revalues its land and buildings which are measured at its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

On revaluation of lands and buildings, any increase in the revaluation amount is credited to the revaluation reserve in shareholder's equity unless it off sets a previous decrease in value of the same asset that was recognized in the statement of profit or loss. A decrease in value is recognized in the statement of profit or loss where it exceeds the increase previously recognized in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

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.

3.10 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.

3.11 Impairment of non–Financial Assets

The carrying amounts of the company's non-financial assets, other than, deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognized in the statement of profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.12 Employee Benefits

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

(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. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognizes all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income.

Principal Actuarial Assumptions

The principal assumptions used in the valuation were as follows :

Parameter	2017	2016
Discount Rate	12.9%	11.9%
Rate of salary increment	10.5%	09 %

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.

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.

3.13 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

3.14 Capital 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 recognized in the statement of financial position but are disclosed unless they are remote.

3.15 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

3.16 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.

SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

Revenue is recognized 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 recognized.

3.17 Interest and similar Income and Expense

For all financial instruments measured at amortized 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.

3.18 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:

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 recognized over the commitment period on a straight line basis.

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 recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

3.19 Dividend Income

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

3.20 Income tax and other taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Note 09 represent the major components of income tax expense to the financial statements.

(i) Current tax expense

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(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

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognized as expense in the period it becomes due.

(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

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

OTHER ACCOUNTING POLICIES

3.21 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.

3.22 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 36.

3.23 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.

3.24 Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Company's Act Direction No 2 of 2010 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.

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank 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.

3.25 Crop Insurance Levy

In terms Section 14 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.

3.26 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as investment properties.

Fair Value Hierarchy

The company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments

When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

(a) quoted market in active markets for similar instruments,
(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing uncertainty associated in determining the fair values.

3.27 New accounting standards issued not yet effective as at reporting date

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 March 2017 reporting periods. None of those have been early adopted by the Company.

SLFRS 9 - Financial Instruments

Summary of the Requirements

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

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

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

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

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

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

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 is for period beginning on or after January 01, 2018.

Possible Impact on Financial Statements

The company is in the process of initial high level assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9.

As the next step the company will establish a business model test and cash flow characteristics test to identify the categories of financial assets.

For the purpose of determining impairment the company needs to build a model with appropriate methodologies and controls to ensure that proper judgment is exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk. Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

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

SLFRS 15 Revenue from Contracts with Customers

Summary of the Requirements

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

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

Possible Impact on Financial Statements

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

SLFRS 16 – 'Leases'

Summary of the Requirements

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.

Possible Impact on Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

		Notes	2017 Rs.	2016 Rs.
4	**INCOME**			
	Interest Income	4.1	1,403,157,114	905,968,184
	Fee and Commission Income	4.3	90,596,133	67,016,024
	Other Operating Income	5	84,783,721	82,164,119
			1,578,536,968	**1,055,148,326**

		2017 Rs.	2016 Rs.
4.1	**Interest Income**		
	Sri Lanka Government Securities	37,959,119	18,740,024
	Balances with Banks	6,761,042	8,311,037
	Loans and receivables to other customers	1,358,436,953	878,917,123
		1,403,157,114	**905,968,184**

		2017 Rs.	2016 Rs.
4.2	**Interest Expense**		
	Due to banks	283,228,018	160,776,997
	Due to customers	642,300,218	368,107,610
		925,528,236	**528,884,607**
	Net interest income	**477,628,878**	**377,083,577**

		2017 Rs.	2016 Rs.
4.3	**NET FEE AND COMMISSION INCOME**		
	Fee and Commission Income	90,596,133	67,016,024
	Fee and Commission Expenses	(29,854,046)	(17,913,440)
	Net fee and commission income	**60,742,087**	**49,102,584**

		2017 Rs.	2016 Rs.
5	**OTHER OPERATING INCOME**		
	Dividend Income	5,265	4,860
	Gain on Sale of Property, Plant and Equipment	1,550,290	2,063,991
	Operating profit on Real Estate	39,206,591	12,582,221
	Write off reversal	28,335,102	20,684,532
	Write back from termination of annuity fund	-	40,000,000
	Others	15,686,473	6,828,515
		84,783,721	**82,164,119**

		2017 Rs.	2016 Rs.
6	**IMPAIRMENT CHARGE FOR LOANS AND RECEIVABLES AND OTHER ASSETS**		
	Loans and other receivables from customers	109,194,003	65,617,041
	Provision charge / (reversal) on real estate	(18,562,001)	(2,130,133)
		90,632,002	**63,486,908**

7. STAFF COSTS

	Notes	2017 Rs.	2016 Rs.
Salaries		118,105,250	102,413,619
Employee benefit - defined contribution plans (EPF/ETF)		16,359,520	14,019,161
Employee benefit - defined benefit plans		2,652,531	2,209,051
Rewards and incentives to employees		12,885,185	12,513,454
Others		1,291,290	12,053,831
		151,293,776	**143,209,115**

Provision for the defined benefit plans have been made based on the actuarial valuation carried out as at 31 March 2017. Please refer note 25 for detailed disclosure and assumptions on the Post Employment Liability.

8. OTHER EXPENSES

	2017 Rs.	2016 Rs.
Directors' emoluments	6,309,524	6,904,762
Auditors' remuneration	1,816,186	1,750,000
Professional and legal expenses	8,469,894	10,505,118
Advertising & Marketing expenses	46,384,491	28,137,852
Office administration and establishment expenses	156,049,195	120,302,515
Others	12,436,986	11,602,182
	231,466,276	**179,202,429**

9. TAXATION

The components of income tax expense for the year ended 31 March 2017 and 2016 are;

		2017 Rs.	2016 Rs.
Current Income Tax	9.1	25,958,477	30,062,220
Over Provision from previous year taxes		-	(23,913,471)
Deferred tax charge	20	(116,005)	(6,817,835)
		25,842,472	**(669,086)**

9.1 Reconciliation of Current Income Tax Expense

	2017 Rs.	2016 Rs.
In Rupees		
Profit Before Tax	93,403,124	77,543,659
Add: Disallowable Expenses	149,019,036	125,475,898
Less: Tax Deductible Expenses	(99,793,162)	(37,842,521)
Statutory Income	142,628,998	165,177,036
: Tax Losses claimed	(49,920,149)	(57,811,963)
Taxable Income	92,708,848	107,365,073
Tax expense for the period (@28%)	**25,958,477**	**30,062,220**
	25,958,477	**30,062,220**
Effective Tax Rate	**27.67%**	**-0.86%**
Effective Tax Rate (Excluding Deferred tax)	**27.79%**	**7.93%**

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.

	2017 Rs.	2016 Rs.
Amount used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	67,560,652	78,212,745
Number of ordinary shares used as denominator 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	**0.04**	**0.05**

11. CASH IN HAND AND BALANCES WITH BANKS

	2017 Rs.	2016 Rs.
Cash in hand	610,000	580,750
Cash at Banks	515,339,911	582,049,783
	515,949,911	**582,630,533**

12. SRI LANKA GOVERNMENT SECURITIES

	2017 Rs.	2016 Rs.
Available-for-Sale		
Treasury bonds	8,423,661	8,222,970
	8,423,661	**8,222,970**

13. CASH COLLATERAL ON SECURITIES BORROWED AND REVERSE REPURCHASED AGREEMENTS

	2017 Rs.	2016 Rs.
Due from Banks	444,432,380	483,160,804
	444,432,380	**483,160,804**

14. LOANS AND RECEIVABLES FROM CUSTOMERS

	Notes	2017 Rs.	2016 Rs.
Gross loans and receivables	14.1 & 14.2	9,027,819,236	6,896,416,579
(Less): Individual impairment	14.3	(275,682,694)	(236,510,426)
Collective impairment	14.3	(250,408,000)	(180,386,263)
Net loans and receivables		**8,501,728,542**	**6,479,519,889**

14.1. Gross Loans and Receivables from Customers - By Product

	2017 Rs.	2016 Rs.
Loans - Ex-employees	75,010	75,010
Term loans	1,648,864,640	1,427,812,706
Leasing	4,970,250,240	3,492,288,258
Hire Purchase	158,509,230	324,936,935
Housing Loans	193,343,090	202,004,793
Factoring	1,815,190,944	1,209,112,795
Other Loans and Receivables	241,586,082	240,186,083
	9,027,819,236	**6,896,416,579**

14.1.1 Contractual maturities of Loans and Receivables from Customers (2017)

	Within one year Rs.	1 to 5 Years Rs.
Loans and Receivables	4,816,575,997	4,211,243,239
	4,816,575,997	**4,211,243,239**

14.2 Gross Loans and Receivables from other customers - By Industry

	2017 Rs.	2016 Rs.
Agriculture	461,548,332	352,580,118
Construction and Transport	1,494,411,498	1,141,591,780
Trading and Manufacturing	2,355,338,869	1,799,260,442
Services including Bank, Finance and Insurance	821,739,727	627,732,936
Other	3,894,780,810	2,975,251,303
	9,027,819,236	**6,896,416,579**

14.3 Movements in Individual and Collective Impairment Charges during the Year

	2017 Rs.	2016 Rs.
Individual impairment charges		
Balance as at 01 April	(236,510,426)	(440,233,006)
Charge to income statement	(39,172,268)	(50,828,976)
Impairment reversals on loan write off	-	254,551,556
Balance as at 31 March	**(275,682,694)**	**(236,510,426)**
Collective impairment charges		
Balance as at 01 April	(180,386,263)	(302,463,409)
(Charge)/Reversal to income statement	(70,021,737)	(14,788,066)
Impairment reversals on loan write off	-	136,865,212
Balance as at 31 March	**(250,408,000)**	**(180,386,263)**

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

	2017 Rs.	2016 Rs.
Equity securities		
Quoted (Note 15.1)	312,591	833,314
Unquoted (Note 15.2)	200,900	200,900
Investment in Unit Trusts (Note 15.3)	639,274	695,559
	1,152,765	**1,729,773**

15.1 Equity Securities

Quoted Investments	2017 No. of Shares	2017 Cost (Rs.)	2017 Market Value (Rs.)	2016 No. of Shares	2016 Cost (Rs.)	2016 Market Value (Rs.)
Blue Diamond Jewellery Worldwide PLC	1,040,657	2,606,570	312,591	2,081,314	3,387,424	833,314
		2,606,570	**312,591**		**3,387,424**	**833,314**

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

15.2 Unquoted Investments

	2017 No. of Shares	2017 Cost (Rs.)	2017 Director Valuations (Rs.)	2016 No. of Shares	2016 Cost (Rs.)	2016 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

	2017 No. of Units	2017 Cost (Rs.)	2017 Market Value (Rs.)	2016 No. of Units	2016 Cost (Rs.)	2016 Market Value (Rs.)
Eagle Growth and Income Fund (Former Pyramid Unit Trust)	10,204	75,000	340,930	8,928	75,000	311,627
Cey Bank Unit Trust Fund	12,631	100,000	298,344	11,323	100,000	383,932
Investrust Money Market Fund						
		175,000	**639,274**		**175,000**	**695,559**

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

16. PROPERTY, PLANT AND EQUIPMENT

16.1 Property, Plant and Equipment

2017

Cost or Valuation	Land and Buildings Rs.	Leasehold Assets Rs.	Computer & Equipments Rs.	Furniture & Fittings Rs.	Motor Vehicle Rs.	Total Rs.
Balance as at 01 April	59,775,000	50,254,128	26,130,654	57,157,430	16,218,708	209,535,920
Additions/Transfers	15,167,112	2,383,702	5,204,224	3,977,867	19,670,000	46,402,905
Revaluation surplus	23,084,832	-	-	-	-	23,084,832
Revaluation adjustment	(6,759,444)	-	-	-	-	(6,759,444)
Disposals/Transfers	-	-	-	-	(4,423,500)	(4,423,500)
Balance as at 31 March	91,267,500	52,637,830	31,334,878	61,135,297	31,465,208	267,840,713
(Less): Accumulated depreciation						
Balance as at 01 April	6,124,440	9,052,554	13,986,455	16,762,082	4,734,661	50,660,192
Charge for the year	635,004	5,704,056	6,317,338	6,312,407	3,013,661	21,982,466
Revaluation adjustment	(6,759,444)	-	-	-	-	(6,759,444)
Disposal / Transfers	-	-	-	-	(2,234,660)	(2,234,660)
Balance as at 31 March	-	14,756,610	20,303,793	23,074,489	5,513,662	63,648,554
Net book value as at 31 March	**91,267,500**	**37,881,220**	**11,031,085**	**38,060,808**	**25,951,546**	**204,192,159**

2016

Cost or Valuation	Land and Buildings Rs.	Leasehold Assets 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	45,637,099	13,056,300	147,417,368
Additions / Transfers	-	17,757,247	6,659,380	11,520,331	10,260,784	46,197,742
Revaluation surplus	23,019,187	-	-	-	-	23,019,187
Disposals	-	-	-	-	(7,098,376)	(7,098,376)
Balance as at 31 March	59,775,000	50,254,128	26,130,654	57,157,430	16,218,708	209,535,921
(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	6,124,440	9,052,554	13,986,455	16,762,082	4,734,661	50,660,193
Net book value as at 31 March	**53,650,561**	**41,201,574**	**12,144,199**	**40,395,348**	**11,484,047**	**158,875,727**

16.2 Net Book Values

At Cost	2017 Rs.	2016 Rs.
Land and Buildings	91,267,500	53,650,562
Leasehold Assets	37,881,220	41,201,574
Motor Vehicles	25,951,546	11,484,047
Computer & Equipments	11,031,085	12,144,199
Furniture & Fittings	38,060,808	40,395,344
	204,192,159	**158,875,727**

16.3 During the financial year, the Company has acquired Property, Plant and Equipment to the aggregate value of Rs. 46,402,905/- and paid in cash amounting to Rs. 31,235,793/- (2016 - Rs. 46,197,742/- , Cash paid - Rs. 46,197,742).

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 three 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 31 March 2017. The valuation of the 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 building as at 31 March 2017 are approximate to the fair values determined by Mr. D.Jayawardena as at 31 March 2017.

Key significant unobservable valuation inputs are as follows :

Bokundara Property	Rs. 275,000 - Rs. 325,000 per perch				
Negombo Property	Estimated stable monthly rental of Rs. 350,000 at an average rate of Rs. 70 per sq. ft. per month	40% Out goings from Gross annual income	Capitalize on Return 5.5% (in years) 18.18yp	10% for contingencies	20 Mn as Insurance value of the building

16.5 There were no significant temporarily idling assets as at 31 March 2017.

16.6 Company continues to use Property Plant and Equipment and Intangible assets which are fully depreciated amounting to Rs. 10,601,088/- as at 31 March 2017.

17. INVESTMENTS IN REAL ESTATE

	2017 Rs.	2016 Rs.
Land		
Cost	122,202,858	171,116,510
Less : Provision	(5,003,625)	(1,065,763)
Net Value	117,199,233	170,050,747
Housing Projects		
Cost	5,954,549	5,954,549
Less : Provision	(3,098,648)	(3,103,915)
Net Value	2,855,901	2,850,634
Joint Venture Projects		
Cost	376,658,820	407,387,049
Less : Provision	(344,398,102)	(366,898,102)
Net Value	32,260,718	40,488,947
	152,315,852	**213,390,328**

18. INTANGIBLE ASSETS

	2017 Rs.	2016 Rs.
Cost		
Balance as at 01 April	23,297,766	22,184,710
Additions/ Transfers	-	1,113,057
Balance as at 31 March	23,297,766	23,297,767
(Less): Amortisation of Intangible Assets		
Balance as at 01 April	12,885,434	11,402,395
Additions/ Transfers	-	-
Amortisation for the year	1,424,422	1,483,040
Balance as at 31 March	14,309,856	12,885,434
Net book value at 31 March	**8,987,910**	**10,412,333**

19. OTHER NON FINANCIAL ASSETS

	2017 Rs.	2016 Rs.
Advances	8,203,099	22,592,449
Deposits and Prepayments	31,318,225	35,396,420
Others	19,566,368	27,626,149
	59,087,692	**85,615,018**

20. DEFERRED TAXATION

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

	Statement of Financial Position	
	2017 Rs.	2016 Rs.
Deferred Tax Liability		
Depreciation of Property Plant and Equipment	34,225,134	29,483,074
Depreciation of Lease Assets	(1,325,251)	23,929,345
	32,899,883	53,412,419
Deferred Tax Assets		
Carried forward retained loss	(219,758,645)	(238,304,458)
Defined Benefit Plans	(4,132,038)	(3,594,144)
Impairment of Loans and Receivables from Customers	(8,356,429)	(10,861,045)
	(232,247,111)	(252,759,648)
Deferred Income Tax Charge/ (Reversal)	**(116,005)**	**(6,817,835)**
Net Deferred Tax (Asset)	**(199,347,229)**	**(199,347,229)**

21. DUE TO OTHER CUSTOMERS

	2017 Rs.	2016 Rs.
At Amortised Cost (Note 21.1)	6,063,491,070	4,236,116,264
	6,063,491,070	**4,236,116,264**

21.1 Due to Other Customers - by Product

	2017 Rs.	2016 Rs.
Savings Deposits	16,757,131	5,486,160
Fixed Deposits	6,046,733,939	4,230,630,103
	6,063,491,070	**4,236,116,264**

22. DUE TO BANKS

	2017 Rs.	2016 Rs.
Bank Overdraft	911,348,844	766,506,938
	911,348,844	**766,506,938**

23. OTHER BORROWED FUNDS

	2017 Rs.	2016 Rs.
Borrowings from Financial Institutions & Banks	1,665,939,671	2,148,565,111
Corporate Debenture	300,131,753	-
	1,966,071,424	**2,148,565,111**

24. OTHER FINANCIAL AND NON FINANCIAL LIABILITIES

24.1 Financial Liabilities

	2017 Rs.	2016 Rs.
Vendor Payables	68,057,102	112,827,645
Fees Payable	7,154,124	13,943,920
	75,211,226	**126,771,565**

24.2 Non Financial Liabilities

	2017 Rs.	2016 Rs.
Accrued Expenses	20,108,567	17,467,158
Sundry Creditors	153,293,396	155,167,785
Other Payables	66,493,367	33,286,862
	239,895,330	**205,921,805**

25. POST EMPLOYMENT LIABILITY

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

	2017 Rs.	2016 Rs.
Post Employment Liability as at 01 April	12,836,230	12,244,660
Amount recognised in Income Statement (Note 25.2)	2,652,531	2,209,051
Amount recognised in Other Comprehensive Income (Note 25.3)	(414,304)	(1,330,221)
Payments made during the year	(317,178)	(287,260)
Post Employment Liability as at 31 March	**14,757,279**	**12,836,230**

25.2 Amount recognised in Income Statement

	2017 Rs.	2016 Rs.
Service cost	1,953,505	1,720,410
Net interest on the net Post Employment Liability	699,026	488,641
	2,652,531	**2,209,051**

25.3 Amount recognised in Other Comprehensive Income

	2017 Rs.	2016 Rs.
Liability (gains)/ losses due to changes in assumptions	408,913	(1,371,208)
Liability experience (gains) / losses arising during the year	(823,217)	40,987
	(414,304)	**(1,330,221)**

25. POST EMPLOYMENT LIABILITY (Contd..)

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

	2017	2016
Discount Rate	12.9%	11.9%
Salary Increment Rate	10.5%	9.0%
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	517,676	(1,211,269)	(520,674)	1,226,332
Sensitivity effect on Post Employment Liability	(517,676)	1,211,269	520,674	(1,226,332)

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.

	2017 Rs.	2016 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.

	2017 Rs.	2016 Rs.
Balance as at 1 April	45,073,328	41,162,691
Transfer during the year	3,378,033	3,910,637
Balance as at 31 March	**48,451,361**	**45,073,328**

28. ACCUMULATED LOSS

	2017 Rs.	2016 Rs.
Balance as at 1 April	(2,188,255,707)	(2,263,515,573)
Profit for the year	67,560,652	78,212,745
Other Comprehensive Income for the year	298,299	957,759
Transfer to Statutory Reserve Fund	(3,378,033)	(3,910,637)
Balance as at 31 March	**(2,123,774,789)**	**(2,188,255,707)**

29. AVAILABLE FOR SALE RESERVE

	2017 Rs.	2016 Rs.
Balance as at 1 April	(427,194)	(1,574,532)
Fair value gain / (loss) recognised during the year	149,279	(1,836,121)
Accumulated fair value loss transferred to income statement	-	2,983,458
Balance as at 31 March	**(277,915)**	**(427,194)**

30. CONTINGENT LIABILITIES AND LEASING ARRANGEMENTS

30.1 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;

	2017 Rs.	2016 Rs.
Within one year	30,328,800	28,577,875
After one year to five years	125,069,369	155,412,068
More than five years	61,912,191	61,229,993
	217,310,360	**245,219,936**

30.2 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 reasonabley 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 DLM 164/16, DMR 836/16, DSP 266/12, DMR 1608/14, DMR 1609/14, DMR 1610/14, DMR 03020/15, HC/Civil/177/10, 4107/11 M.
Loan/ Lease based cases (in relation to immovable assets).

b DSP 222/10, DMR 2814/15.
Loan/Lease based cases (In relation to movable assets).

C DTS 279/08.
FD related cases.

d B 4004/15, B 4005/14, CHC 534/15, CHC 536/15, CHC 533/15, CHC 535/15, CHC 503/15.
Share - ownership related cases.

30.3 Contingent Liabilities

a 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.

b The Company has received a Tax assessment from inland revenue department for an amount of Rs. 27mn. The Board of directors is in the view that this can be defended and the company has started the appealing process accordingly.

31. FAIR VALUE OF ASSETS AND LIABILITIES

31.1 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 & 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 & quoted equities are valued using quoted market prices in the active markets as at the reporting date.

Trading assets & other assets measured at fair value

Trading assets & other assets measured at fair value are the government debt securities ,asset–backed securities & quoted equities. Government debt securities & 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.

31.2 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.

31.3 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.

31.4 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.

	2017			
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Sri Lanka government securities - Available for Sale	8,423,661	-	-	8,423,661
Financial Investments – Available for Sale				
Equity Securities	312,591	200,900	-	513,491
Investments in Unit Trusts	639,274	-	-	639,274
Non Financial Assets				
Land and buildings	-	-	91,267,500	91,267,500
	9,375,526	**200,900**	**91,267,500**	**100,843,926**

The methods used to determined fair value of the financial instruments categorised under level 2 are stated in Note 15.2.
The methods used to determined fair value of Non financial assets - land and buildings categorized under level 3 are stated in Note 16.4

	2016			
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
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
Non Financial Assets				
Land and buildings	-	-	59,775,000	59,775,000
	9,751,843	**200,900**	**59,775,000**	**69,727,743**

31.5 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.

31.5 Fixed rate financial instruments (Contd..)

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.

	2017				
	Level 1 Rs.	Fair Value Level 2 Rs.	Level 3 Rs.	Fair Value Rs.	Carrying Amount Rs.
Financial Assets					
Cash in hand and balances with Banks	515,949,911	-	-	515,949,911	515,949,911
Loans and receivables					
Cash collateral on securities borrowed and reverse repurchased agreements	-	444,432,380	-	444,432,380	444,432,380
Loans and Receivables from Customers	-	8,794,178,934	-	8,794,178,934	8,501,728,542
	515,949,911	**9,238,611,314**	-	**9,754,561,226**	**9,462,110,834**
Financial Liabilities					
Due to Banks	911,348,844	-	-	911,348,844	911,348,844
Other Financial Liabilities at Amortised Cost					
Due to other Customers	-	5,896,904,107	-	5,896,904,107	6,063,491,070
Other Borrowed Funds	-	1,926,330,394	-	1,926,330,394	1,966,071,424
Other Financial Liabilities	-	75,211,226	-	75,211,226	75,211,226
	911,348,844	**7,898,445,727**	-	**8,809,794,571**	**9,016,122,565**

	2016				
	Level 1 Rs.	Fair Value Level 2 Rs.	Level 3 Rs.	Fair Value Rs.	Carrying Amount Rs.
Financial Assets					
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**	-	**6,681,885,103**	**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**	**7,277,959,879**

32. RISK MANAGEMENT

32.1 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 Companies 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).

32.2 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.

32.3 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.

32.4 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.

32.5 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.

32.6 Credit Risk

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

32. RISK MANAGEMENT (Contd...)

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.

32.7 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.

32.8 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.

32. RISK MANAGEMENT (Contd...)

As at 31 March 2017	Neither Past Due Nor Impaired Rs.	Past Due but Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
Cash in hand and balances with Banks	515,949,911	-	-	515,949,911
Sri Lanka Government Securities - Available for Sale	8,423,661	-	-	8,423,661
Cash collateral on securities borrowed and reverse repurchased agreements	444,432,380	-	-	444,432,380
Loans and receivables from customers	2,546,233,413	5,779,643,100	175,852,029	8,501,728,542
Financial investments – Available-for-Sale	1,152,765	-	-	1,152,765
	3,516,192,131	**5,779,643,100**	**175,852,029**	**9,471,687,259**

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 Rs.	3 to 6 Months Rs.	6 to 12 Months Rs.	More than 12 Months Rs.	Total Rs.
Loans and receivables from Customers	3,736,066,702	870,326,550	387,751,562	785,498,286	5,779,643,100

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

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	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	204,493,767	6,479,519,889
Financial investments – Available-for-Sale	1,729,773	-	-	1,729,773
	4,066,876,487	**3,283,893,714**	**204,493,767**	**7,555,263,968**

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 Rs.	3 to 6 Months Rs.	6 to 12 Months Rs.	More than 12 Months Rs.	Total Rs.
Loans and receivables from Customers	2,356,754,081	372,244,904	97,708,311	457,186,418	3,283,893,714
	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.

32. RISK MANAGEMENT (Contd...)

32.9 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	2017	
	Maximum Exposure to Credit Risk Rs.	Net Exposure Credit Risk Rs.
Cash in Hand and Balances with Banks	515,949,911	515,949,911
Sri Lanka Government Securities	8,423,661	8,423,661
Cash collateral on securities borrowed and reverse repurchased agreements	444,432,380	444,432,380
Loans and Receivables from Customers	9,027,819,236	390,141,528
Financial Investments - Available for Sale	1,152,765	1,152,765
Total Financial Assets	**9,997,777,953**	**1,360,100,246**

The Company holds certain assets as collateral which it is permitted to sell or repledge 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.

32.10 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.

32.11 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.

32. RISK MANAGEMENT (Contd...)

32.12 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 2017	Agriculture Rs.	Construction & Transport Rs.	Trading & Manufacturing Rs.	Services Including Financial Services Rs.	Other Rs.	Total Rs.
Financial Assets						
Cash in hand and balances with Banks	-	-	-	515,949,911	-	515,949,911
Sri Lanka Government Securities - Available for Sale	-	-	-	8,423,661	-	8,423,661
Cash collateral on securities borrowed and reverse repurchased agreements	-	-	-	444,432,380	-	444,432,380
Investment in Fixed Deposits	-	-	-	-	-	-
Loans and receivables from Customers	461,548,333	1,494,411,498	2,355,338,869	821,739,727	3,894,780,810	9,027,819,237
Financial Investments – Available for Sale	-	-	-	1,152,765	-	1,152,765
Total Financial Assets	**461,548,333**	**1,494,411,498**	**2,355,338,869**	**1,791,698,444**	**3,894,780,810**	**9,997,777,955**
As at 31 March 2016						
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	352,580,118	1,141,591,780	1,799,260,442	627,732,936	2,975,251,303	6,896,416,579
Financial Investments – Available for Sale	-	-	-	1,729,773	-	1,729,773
Total Financial Assets	**352,580,118**	**1,141,591,780**	**1,799,260,442**	**1,703,477,016**	**2,975,251,303**	**7,972,160,659**

32. RISK MANAGEMENT (Contd...)

32.13 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 7.5% 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	2017	2016
Year End	14%	17%
Maximum	21%	17%
Minimum	10%	11%
Average	14%	14%

Advances to Deposit Ratios

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

	2017	2016
Year End	1.4	1.5
Maximum	1.4	1.5
Minimum	1.3	1.3
Average	1.4	1.4

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 31 March 2017. Contractual maturities of undiscounted cash flows of financial assets and liabilities are shown in the table below;

2017	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
Assets					
Cash in hand and balances with Banks	515,949,911	-	-	-	515,949,911
Sri Lanka government securities	-	-	-	8,423,661	8,423,661
Cash collateral on securities borrowed & reverse repurchased agreements	444,432,380	-	-	-	444,432,380
Loans and receivables from customers	3,893,935,160	1,906,175,829	5,460,328,894	1,882,323	11,262,322,206
Financial investments – Available-for-sale	-	1,152,765	-	-	1,152,765
	4,854,317,452	**1,907,328,594**	**5,460,328,894**	**10,305,984**	**12,232,280,924**
Liabilities					
Due to banks	911,348,844	-	-	-	911,348,844
Due to other customers	2,051,144,551	2,133,296,760	2,662,207,731	-	6,846,649,042
Other Borrowed funds	308,699,051	692,613,205	1,494,614,718	-	2,495,926,974
Other Financial Liabilities	75,211,226	-	-	-	75,211,226
	3,346,403,672	**2,825,909,965**	**4,156,822,449**	**-**	**10,329,136,086**

32. RISK MANAGEMENT (Contd...)

32.13 Liquidity risk and funding management (Contd..)

2016	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
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 & 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**
Liabilities					
Due to Banks	766,506,938	-	-	-	766,506,938
Due to other Customers	1,337,809,401	1,265,195,415	1,218,091,874	415,019,575	4,236,116,265
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**	**7,277,959,880**

32.14 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

32.14.1 Interest Rate Risk Exposure on Financial Assets and Liabilities

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

As at 31 March 2017	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	-	-	-	-	515,949,911	515,949,911
Sri Lanka Government Securities - Available for Sale	-	-	-	8,423,661	-	8,423,661
Cash Collateral on Securities Borrowed and Reverse Repurchased Agreements - Available for Sale	444,432,380	-	-	-	-	444,432,380
Investment in Fixed Deposit	-	-	-	-	-	-
Loans and Lease Receivables	2,366,412,020	1,226,656,150	5,433,075,214	1,675,853	-	9,027,819,237
Financial Investments - Available for Sale	-	-	-	-	1,152,765	1,152,765
	2,810,844,400	**1,226,656,150**	**5,433,075,214**	**10,099,514**	**517,102,676**	**9,997,777,954**
Financial Liabilities						
Due to Banks	911,348,844	-	-	-	-	911,348,844
Due to Customers	1,983,395,847	1,842,328,984	2,237,766,239	-	-	6,063,491,070
Other Borrowed funds	261,405,705	519,115,608	1,185,550,111	-	-	1,966,071,424
Other Financial Liabilities	-	-	-	-	75,211,226	75,211,226
	3,156,150,396	**2,361,444,592**	**3,423,316,350**	**-**	**75,211,226**	**9,016,122,564**
INTEREST SENSITIVITY GAP	**(345,305,996)**	**(1,134,788,442)**	**2,009,758,864**	**10,099,514**	**441,891,450**	**981,655,391**

32.14.1 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	1,337,809,401	1,265,195,415	1,218,091,874	415,019,575	-	4,236,116,265
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**

32.14.2 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

	2017		2016	
Parallel Increase/Decrease of Rate	(+/-) 1%	(+/-) 2%	(+/-) 1%	(+/-) 2%
Annual Impact on NII (Rs.)	(+/-) 7,716,272	(+/-) 15,432,544	(+/-) 12,345,499	(+/-) 24,690,999

32.14.3 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 2017	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
Assets					
Cash in hand and balances with Banks	515,949,911	-	-	-	515,949,911
Sri Lanka Government Securities	-	-	8,423,661	-	8,423,661
Cash collateral on securities borrowed and reverse repurchased agreements	444,432,380	-	-	-	444,432,380
Investment in fixed deposits	-	-	-	-	-
Loans and receivables from Customers	2,366,412,020	1,226,656,150	4,906,984,518	1,675,853	8,501,728,542
Financial investments–Available-for-sale	-	1,152,765	-	-	1,152,765
Investment in Real Estate	-	48,000,000	104,315,852	-	152,315,852
Intangible assets	-	-	-	8,987,910	8,987,910
Property, plant and equipment	-	-	-	204,192,159	204,192,159
Deferred tax assets	-	-	-	199,347,229	199,347,229
Other non Financial Assets	59,087,692	-	-	-	59,087,692
	3,385,882,003	**1,275,808,915**	**5,019,724,031**	**414,203,150**	**10,095,618,101**
Liabilities					
Due to Banks	911,348,844	-	-	-	911,348,844
Due to other customers	1,983,395,847	1,842,328,984	2,237,766,239	-	6,063,491,070
Other Borrowed funds	261,405,705	519,115,608	1,185,550,111	-	1,966,071,424
Current Tax Liabilities	-	8,798,155	-	-	8,798,155
Other Financial Liabilities	75,211,226	-	-	-	75,211,226
Other Non Financial Liabilities	239,895,330	-	-	-	239,895,330
Post Employment Liability	-	-	14,757,279	-	14,757,279
	3,471,256,952	**2,370,242,747**	**3,438,073,629**	**-**	**9,279,573,328**

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

As at 31 March 2016	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Balances
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**	**8,222,904,602**
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. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the Reporting Date which would require adjustments to, or disclosure in the Financial Statements, except for the disclosures made under note 30.3.

34. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

As at 31 March 2017

Description of Property	Nature of Encumbrance	Carrying Amount of Assets Pledged Rs.	Included Under
Lease/ Hire Purchase rental receivable	Long term loans	3,387,564,373	Loans and receivables from Customers

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

35. 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.

35.1 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.

35.2 Key Management Personnel Compensation

	2017 Rs.	2016 Rs.
Short-term employment benefits	18,960,000	16,647,816
Directors' emoluments	6,309,524	6,904,761
	25,269,524	**23,552,577**

35.3 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**	2017 Rs.	2016 Rs.
Liabilities			
Fixed Deposits	Due to Customers	12,695,000	26,500,000
		12,695,000	**26,500,000**
Statement of Comprehensive Income			
Interest Expense on Customer Deposits	Interest Expenses	**1,443,904**	**1,478,104**

35.4 Transactions with Other Related Parties

35.4.1 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**	2017 Rs.	2016 Rs.
Liabilities			
Borrowings	Other Borrowed Funds	918,749,994	474,999,994
Other Payables	Other non Financial Liabilities	-	950,000
		918,749,994	**475,949,994**
Statement of Comprehensive Income			
Interest Expense on Fixed Deposits	Interest Expense	-	-
Interest Expense on Borrowings	Interest Expense	79,277,819	36,833,288
		79,277,819	**36,833,288**
Other Transactions			
Borrowings obtained during the Year		600,000,000	500,000,000
Borrowings settled during the Year		(156,250,000)	(116,666,674)
		443,750,000	**383,333,326**

36. 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.

2017	Lease	Hire Purchase	Factoring	Special Purpose and Hire Purchase Loans	Housing Loans	Others	Total
Interest Income	809,646,946	50,361,804	262,770,506	218,484,426	6,778,986	55,114,445	1,403,157,113
Interest Expenses	(498,908,204)	(15,910,981)	(182,206,853)	(122,617,348)	(19,407,565)	(86,477,285)	(925,528,236)
Net Interest Income	**310,738,742**	**34,450,824**	**80,563,653**	**95,867,077**	**(12,628,579)**	**(31,362,840)**	**477,628,877**
Fee and Commission Income	21,636,628	7,700	38,779,793	8,937,271	2,600	21,232,141	90,596,133
Fee and Commission Expenses	(7,129,895)	(2,537)	(12,779,064)	(2,945,089)	(857)	(6,996,605)	(29,854,046)
Net Fee and Commission Income	**14,506,733**	**5,163**	**26,000,730**	**5,992,182**	**1,743**	**14,235,536**	**60,742,087**
Other Operating Income (Net)	-	-	-	-	-	84,783,721	84,783,721
Total Operating Income	**325,245,476**	**34,455,986**	**106,564,383**	**101,859,259**	**(12,626,836)**	**67,656,417**	**623,154,685**
Impairment Charge for Loans and Receivables and Other Assets	(34,690,134)	2,039,179	(30,878,163)	(13,996,696)	(5,749,701)	(7,356,488)	(90,632,003)
Net Operating Income	**290,555,342**	**36,495,165**	**75,686,220**	**87,862,563**	**(18,376,537)**	**60,299,929**	**532,522,682**
Staff Costs	(81,555,271)	(2,600,928)	(29,784,897)	(20,043,950)	(3,172,506)	(14,136,225)	(151,293,776)
Depreciation of Property, Plant and Equipment	(11,849,701)	(377,906)	(4,327,643)	(2,912,317)	(460,954)	(2,053,945)	(21,982,466)
Amortisation of Intangible Assets	(767,838)	(24,488)	(280,423)	(188,713)	(29,869)	(133,092)	(1,424,422)
Other Expenses	(124,772,448)	(3,979,193)	(45,568,293)	(30,665,494)	(4,853,657)	(21,627,190)	(231,466,276)
Operating Profit before Value Added Tax (VAT) and NBT	**71,610,084**	**29,512,651**	**(4,275,036)**	**34,052,089**	**(26,893,523)**	**22,349,478**	**126,355,742**
Value Added Tax (VAT) and NBT on Financial Services	-	-	-	-	-	-	**(32,952,620)**
Profit / (Loss) Before Taxation	**71,610,084**	**29,512,651**	**(4,275,036)**	**34,052,089**	**(26,893,523)**	**22,349,478**	93,403,122
Tax Expense	-	-	-	-	-	-	(25,842,472)
Profit / (Loss) for the Year	**71,610,084**	**29,512,651**	**(4,275,036)**	**34,052,089**	**(26,893,523)**	**22,349,478**	**67,560,652**

36. SEGMENT INFORMATION. (Contd..)

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 Charge for Loans and Receivables and							-
Other Assets	(61,973,368)	(23,607,134)	(6,364,851)	(16,116,388)	8,977,690	35,597,142	(63,486,909)
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**	**103,601,081**
Value Added Tax (VAT) and NBT 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**	**77,543,659**
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**

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Taking on a pivotal role, the UBF Sports Club continued to build harmony, fellowship and team spirit across the organisation. This year too, the Company's cricket team participated in the MCA "E" Division 30-Over League Tournament organised by the Mercantile Cricket Association of Sri Lanka. The UBF Cricket team captain Pathum Madusanka became the best batsman and Nipuna Gamage became the Man of the Tournament. The UBF Cricket team performed exceptionally well and was awarded joint champions in the six-a-side tournament in Division "E".

UBF also encouraged staff to display their sports prowess at the Finance House Annual Sports Day in cricket, netball, volleyball, rugby and the 100m men track event. The organisation was also represented at the Mercantile swimming and athletics tournaments.

The UBF sports club continued to improve camaraderie among the employees through its annual Avurudhu Uthsavaya held at Club Plam Bay Hotel in Marawila. Adhering to traditions and norms of the celebration, staff members were encouraged to participate dressed in cultural attire and the event had many exciting Avurudu games and cultural activities, making this event a truly memorable occasion.

Over the last year Sri Lanka was hit by severe storms causing widespread flooding and landslides in many areas of the country. Many were affected by this disaster and numerous homes were destroyed. As a conscientious citizen of Sri Lanka, in an initiative organized by the UBF sports club, UBF came forward with the UBF Sarana Yathra to assist the flood victims with dry rations, cooked foods, medicine and cash. These efforts were carried out in Aranayaka, Samassara, Kelaniya and Salawa areas. A significant amount of the contributions made towards these projects were voluntary donations made by the UBF team and loyal customers.

UBF Cricket Team Vice Captain - Nipuna Gamage


Sarana Yathra Team at Aranayake

UBF Cricket Sixes


Best Outstanding Sportsman - Pathum Madusanka


UBF Awurudu Uthsawaya 2017


UBF Awurudu Uthsawaya 2017

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 Corporate Secretarial (Pvt) Ltd
Bankers		Union Bank of Colombo PLC Nations Trust Bank PLC People's Bank Sampath Bank PLC Deutsche Bank of Sri Lanka Hatton National Bank PLC Seylan Bank PLC Bank of Ceylon Commercial Bank of Ceylon PLC
VAT Registration No	:	104019404 - 7000
Branch Network	:	

LOCATION	ADDRESS	TELEPHONE	FAX
Head Office	No. 10, Daisy Villa Avenue, Colombo 04	+94 (0) 11 4 468 888	+94 (0) 11 2 508 517
Ambalangoda	No.27, Wickckramasooriya Road, Ambalangoda	+94 (0) 91 2 254 605	+94 (0) 91 2 254 604
Galle	No.121, Colombo Road, Kaluwella, Galle.	+94 (0) 91 7 634 577 +94 (0) 91 7 634 576	+94 (0) 91 7 634 575
Kadawatha	No. 143/B, Kandy Road, Kadawatha.	+94 (0) 11 7 634 577 +94 (0) 11 7 634 576	+94 (0) 11 7 634 575
Kandy	No. 75, Yatinuwara Weediya, Kandy.	+94 (0) 81 7 634 577 +94 (0) 81 7 634 576	+94 (0) 81 7 634 575
Kurunegala	No. 64, Jayawansha Building, Colombo Road, Kurunegala	+94 (0) 37 7 634 577 +94 (0) 37 7 634 576	+94 (0) 37 7 634 575
Matara	No. 268, Dharmapala Mawatha, Matara.	+94 (0) 41 7 634 577 +94 (0) 41 7 634 576	+94 (0) 41 7 634 575
Mawanella	No. 89, Kandy Road, Mawanella.	+94 (0) 35 7 634 577 +94 (0) 35 7 634 576	+94 (0) 35 7 634 575
Negombo	No. 539, Colombo Road, Kurana, Negombo.	+94 (0) 31 7 634 577 +94 (0) 31 7 634 576	+94 (0) 31 7 634 575
Panadura	No.223 A,1st Floor, Galle Road, Panadura.	+94 (0) 38 7 634 577 +94 (0) 38 7 634 576	+94 (0) 38 7 634 575
Polonnaruwa	No.05, Batticaloa Road, Polonnaruwa.	+94 (0) 27 7 634 577 +94 (0) 27 7 634 576	+94 (0) 27 7 634 575
Tissamaharama	No. 163, Kachcheriyagama, Tissamaharama.	+94 (0) 47 7 634 577 +94 (0) 47 7 634 576	+94 (0) 47 7 634 575
NuwaraEliya	No. 32/1, Park Road, NuwaraEliya.	+94 (0) 52 4 650 300 +94 (0) 52 4 650 301	+94 (0) 52 4 650 302
Gampaha	No. 56, Bauddhaloka Mawatha, Gampaha.	+94 (0) 33 4 501 520 +94 (0) 33 4 501 521	+94 (0) 33 4 501 522

LOCATION	ADDRESS	TELEPHONE	FAX
Kalmunai	No. 141B, Main Street, Kalmunai.	+94 (0) 67 4 501 011 +94 (0) 67 4 501 012	+94 (0) 67 4 501 013
Rathnapura	No. 10, Colombo Road, Rathnapura	+94 (0) 45 4 650 300 +94 (0) 45 4 650 301	+94 (0) 45 4 650 302
Factoring Premier office	No.12, RA De Mell Mawatha, Colombo 05.	+94 (0) 11 4 501 343 +94 (0) 11 4 501 344	+94 (0) 11 4 501 345

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